

Notice is hereby given that a Meeting of the Finance and Audit Committee will be held on:

Date: Wednesday, 7 June 2017
Time: 9am
Meeting Room: Council Chambers
Venue: 15 Forth Street, Invercargill

Finance and Audit Committee Agenda

OPEN

MEMBERSHIP

Chairperson Ebel Kremer
Mayor Gary Tong
Councillors John Douglas
Paul Duffy

IN ATTENDANCE

Committee Advisor Fiona Dunlop
Chief Financial Officer Anne Robson

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Full agendas are available on Council's Website
www.southlanddc.govt.nz

Terms of Reference – Finance and Audit Committee

The Finance and Audit Committee is responsible for:

- Ensuring that Council has appropriate financial, risk management and internal control systems in place that provide:
 - An overview of the financial performance of the organisation.
 - Effective management of potential opportunities and adverse effects.
 - Reasonable assurance as to the integrity and reliability of Council's financial and non-financial reporting.
- Exercising active oversight of information technology systems.
- Exercising active oversight of "Council's health and safety policies, processes, compliance, results and frameworks"
- Relationships with External, Internal Auditors, Banking Institutions and Insurance brokers.

The Finance and Audit Committee will monitor and assess the following:

- The financial and non-financial performance of Council against budgeted and forecasted outcomes
- Consideration of forecasted changes to financial outcomes
- Council's compliance with legislative requirements
- Council's risk management framework
- Council's Control framework
- Council's compliance with its treasury responsibilities.

The Finance and Audit Committee shall have the following delegated powers and be accountable to Council for the exercising of these powers and will operate within:

- policies, plans, standards or guidelines that have been established and approved by Council;
- the overall priorities of Council;
- the needs of the local communities; and
- the approved budgets for the activity.

The Finance and Audit Committee will have responsibility and delegated authority in the following areas:

Financial and Performance Monitoring

- (a) Monitoring financial performance to budgets;
- (b) Monitoring service level performance to key performance indicators.

Internal Control Framework

- (a) Reviewing whether Council's approach to maintaining an effective internal control framework is sound and effective;
- (b) Reviewing whether Council has taken steps to embed a culture that is committed to probity and ethical behaviour;
- (c) Reviewing whether there are appropriate systems, processes and controls in place to prevent, detect and effectively investigate fraud.

Internal Reporting

- (a) To consider the processes for ensuring the completeness and quality of financial and operational information being provided to the Council;
- (b) To seek advice periodically from internal and external auditors regarding the completeness and quality of financial and operational information that is provided to the Council.

External Reporting and Accountability

- (a) Agreeing the appropriateness of the Council's existing accounting policies and principles and any proposed change;
- (b) Enquiring of internal and external auditors for any information that affects the quality and clarity of the Council's financial statements and statements of service performance, and assess whether appropriate action has been taken by management in response to the above;
- (c) Satisfying itself that the financial statements and statements of service performance are supported by appropriate management signoff on the statements and on the adequacy of the systems of internal control (ie, letters of representation), and recommend signing of the financial statements by the Chief Executive/Mayor and adoption of the Annual Report, Annual Plans, Long Term Plans;

Risk Management

- (a) Reviewing whether Council has in place a current, comprehensive and effective risk management framework and associated procedures for effective identification and management of the Council's significant risks;
- (b) Considering whether appropriate action is being taken to mitigate Council's significant risks.

Health and Safety

- (a) Review, monitor and make recommendations to Council on the organisations health and safety risk management framework and policies to ensure that the organisation has clearly set out its commitments to manage health and safety matters effectively.
- (b) Review and make recommendations for Council approval on strategies for achieving health and safety objectives.
- (c) Review and recommend for Council approval targets for health and safety performance and assess performance against those targets.
- (d) Monitor the organisation's compliance with health and safety policies and relevant applicable law.
- (e) Ensure that the systems used to identify and manage health and safety risks are fit-for-purpose, being effectively implemented, regularly reviewed and continuously improved. This includes ensuring that the Council is properly and regularly informed and updated on matters relating to health and safety risks.
- (f) Seek assurance that the organisation is effectively structured to manage health and safety risks, including having competent workers, adequate communication procedures and proper documentation.
- (g) Review health and safety related incidents and consider appropriate actions to minimise the risk of recurrence.
- (h) Make recommendation to the Council regarding the appropriateness of resources available for operating the health and safety management systems and programmes.
- (i) Any other duties and responsibilities which have been assigned to it from time to time by the Council.

Internal Audit

- (a) Approve appointment of the internal auditor, internal audit engagement letter and letter of understanding.
- (b) Reviewing and approving the internal audit coverage and annual work plans, ensuring these plans are based on the Council's risk profile;
- (c) Reviewing the adequacy of management's implementation of internal audit recommendations;
- (d) Reviewing the internal audit charter to ensure appropriate organisational structures, authority, access, independence, resourcing and reporting arrangements are in place.

External Audit

- (a) Confirming the terms of the engagement, including the nature and scope of the audit, timetable and fees, with the external auditor at the start of each audit;
- (b) Receiving the external audit report(s) and review action(s) to be taken by management on significant issues and audit recommendations raised within;
- (c) Enquiring of management and the independent auditor about significant business, political, financial and control risks or exposure to such risks.

Compliance with Legislation, Standards and Best Practice Guidelines

- (a) Reviewing the effectiveness of the system for monitoring the Council's compliance with laws (including governance legislation, regulations and associated government policies), with Council's own standards, and Best Practice Guidelines as applicable.
- (b) Conducting and monitoring special investigations, in accordance with Council Policy, and reporting the findings to Council.
- (c) Monitoring the performance of Council organisations, in accordance with the Local Government Act.

Business Case Review

- (a) Review of the business case of work, services, supplies, where the value of these or the project exceeds \$2million or the value over the term of the contract exceeds \$2million.

Insurance

- (a) Consider Council's insurance requirements, considering its risk profile
- (b) Approving the annual insurance renewal requirements

Treasury

- (a) Oversee the treasury function of Council ensuring compliance with the relevant Council policies and plans
- (b) Ensuring compliance with the requirements of Council's trust deeds are met
- (c) Recommending to Council treasury policies.

The Finance and Audit Committee is responsible for considering and making recommendations to Council regarding:

- (a) Policies relating to risk management, rating, loans, funding and purchasing.
- (b) Accounting treatments, changes in generally accepted accounting practice, and new accounting and reporting requirements.
- (c) The approval of financial and non-financial performance statements including adoption of the Annual Report, Annual Plans and Long Term Plans.

The Finance and Audit Committee is responsible for considering and making recommendations to the Services and Assets Committee on business cases.

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1 Apologies

At the close of the agenda no apologies had been received.

2 Leave of absence

At the close of the agenda the following request for Leave of Absence was received:
Councillor Duffy

3 Conflict of Interest

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

4 Public Forum

Notification to speak is required by 5pm at least two days before the meeting. Further information is available on www.southlanddc.govt.nz or phoning 0800 732 732.

5 Extraordinary/Urgent Items

To consider, and if thought fit, to pass a resolution to permit the committee to consider any further items which do not appear on the Agenda of this meeting and/or the meeting to be held with the public excluded.

Such resolution is required to be made pursuant to Section 46A(7) of the Local Government Official Information and Meetings Act 1987, and the Chairperson must advise:

- (i) the reason why the item was not on the Agenda, and
- (ii) the reason why the discussion of this item cannot be delayed until a subsequent meeting.

Section 46A(7A) of the Local Government Official Information and Meetings Act 1987 (as amended) states:

“Where an item is not on the agenda for a meeting,-

- (a) that item may be discussed at that meeting if-
 - (i) that item is a minor matter relating to the general business of the local authority; and
 - (ii) the presiding member explains at the beginning of the meeting, at a time when it is open to the public, that the item will be discussed at the meeting; but
- (b) no resolution, decision or recommendation may be made in respect of that item except to refer that item to a subsequent meeting of the local authority for further discussion.”

6 Confirmation of Minutes

- 6.1 Meeting minutes of Finance and Audit Committee, 15 March 2017
- 6.2 Meeting minutes of Extraordinary Finance and Audit Committee, 26 April 2017
- 6.3 Meeting minutes of Extraordinary Finance and Audit Committee, 03 May 2017

Finance and Audit Committee

OPEN MINUTES (UNCONFIRMED)

Minutes of a meeting of Finance and Audit Committee held in the Council Chambers, 15 Forth Street, Invercargill on Wednesday, 15 March 2017 at 9.02am.

PRESENT

Chairperson Ebel Kremer
Mayor Gary Tong

Councillors John Douglas
Paul Duffy

IN ATTENDANCE

Councillor Julie Keast, Chief Executive Officer – Steve Ruru, Chief Financial Officer – Anne Robson, Group Manager, Services and Assets – Ian Marshall, Group Manager, Environmental Services – Bruce Halligan, Group Manager, Community and Futures – Rex Capil, People and Capability Manager – Janet Ellis, Communications Manager – Louise Pagan and Committee Advisor – Fiona Dunlop.

1 Apologies

There were no apologies.

2 Leave of absence

There were no requests for leave of absence.

3 Conflict of Interest

There were no conflicts of interest declared.

4 Public Forum

There was no public forum.

5 Extraordinary/Urgent Items

There were no Extraordinary/Urgent items.

6 Confirmation of Minutes

There were no minutes to confirm as this is the first meeting of the Committee.

Reports

7.1 Health and Safety

Record No: R/17/2/2841

People and Capability Manager – Janet Ellis was in attendance for this item.

Mrs Ellis advised that the purpose of the report was to provide an update on Health and Safety activity within the Southland District Council.

(Councillor Duffy joined the meeting at 9.04am.)

The Committee noted that the Health and Safety Gap Analysis undertaken by Simpson Grierson was circulated separately to the Committee. A proposed plan on work to be conducted as a result of the Analysis will be presented to the next meeting of the Committee.

Resolution

Moved Cr Douglas, seconded Cr Duffy **recommendations a to c and d with changes (as indicated with ~~strike through~~ and underlining) and resolved:**

That the Finance and Audit Committee:

- a) **Receives the report titled “Health and Safety” dated 2 March 2017.**
- b) **Determines that this matter or decision be recognised as not significant in terms of Section 76 of the Local Government Act 2002.**
- c) **Determines that it has complied with the decision-making provisions of the Local Government Act 2002 to the extent necessary in relation to this**

decision; and in accordance with Section 79 of the Act determines that it does not require further information, further assessment of options or further analysis of costs and benefits or advantages and disadvantages prior to making a decision on this matter.

- d) **Notes the draft findings of the Health and Safety Gap Analysis conducted by Simpson Grierson in February 2017 and agrees to the draft recommendations undertaken by Simpson Grierson in February 2017 (and circulated separately to the Committee) and agrees to the proposed plan to be presented to the next meeting of the Finance and Audit Committee.**

7.2 Financial Report for the month ended 31 January 2017

Record No: R/17/2/3457

Management Accountant – Robert Tweedie was in attendance for this item.

Mr Tweedie advised that the report outlined the financial results for the seven months to 31 January 2017 or 58% of the financial year.

The Committee noted that the monthly and year-to-date actual results were attached in the Summary Monthly Financial Report and are compared to the Full Year Budget in the 2016/2017 Annual Plan Budget. The projection values include any carried forward items approved by Council in August 2016 and will include any changes as a result of forecasting that Council approved. The 2016/2017 Annual Plan budget is shown in the Monthly Financial Summary Report as the Full Year Budget.

(Councillor Keast joined the meeting at 9.22am.)

Resolution

Moved Mayor Tong, seconded Cr Duffy **and resolved:**

That the Finance and Audit Committee:

- a) **Receives the report titled “Financial Report for the month ended 31 January 2017” dated 7 March 2017.**

7.3 Draft Investment and Liability Management Policy

Record No: R/17/1/1083

Policy Analyst – Robyn Rout and Chief Financial Officer – Anne Robson were in attendance for this item.

Mrs Rout advised that the report presents the draft Investment and Liability Management Policy for the Committee’s consideration and once approved, the Policy will be open for public consultation from 18 March until 21 April 2017.

The Committee noted that the Investment and Liability Management Policy outlines how Council will manage its investments, including what Council will invest in, and how investment risk will be assessed and managed. The Policy also outlines how Council will manage borrowings.

Mrs Rout also advised that the changes to the draft policy include clarity around the intent of Council in the setting of interest on internal loans, and changes to roles and responsibilities.

Resolution

Moved Cr Duffy, seconded Cr Douglas

That the Finance and Audit Committee:

- a) **Receives the report titled “Draft Investment and Liability Management Policy ” dated 7 March 2017.**
- b) **Determines that this matter or decision be recognised as not significant in terms of Section 76 of the Local Government Act 2002.**
- c) **Determines that it has complied with the decision-making provisions of the Local Government Act 2002 to the extent necessary in relation to this decision; and in accordance with Section 79 of the Act determines that it does not require further information, further assessment of options or further analysis of costs and benefits or advantages and disadvantages prior to making a decision on this matter.**
- d) **Approves the draft Investment and Liability Management Policy (attached to the officers’ report) for release for public consultation from 18 March until 21 April 2017 with the following changes (as indicated with ~~strikethrough~~):**

4.11 Prudent selection of funding instruments and mix will help the Council achieve its low debt servicing costs and risk minimisation objectives. ~~Selling interest rate options for the primary purpose of generating income is not permitted, because of its speculative nature.~~

- 4.18 The Council may obtain funding utilising the following methods:
- Bank debt from New Zealand Registered Banks. ~~which have a minimum Standard and Poor’s long term credit rating of ‘A+’ or the Moody Investors Service or Fitch Ratings equivalents.~~
 - Capital markets issuance comprising Commercial Paper, Fixed Rate Bonds, Medium Term Notes and Floating Rate Notes.
 - From the Local Government Funding Agency.

7.4 Draft Remission and Postponement of Rates Policy

Record No: R/17/1/1027

Policy Analyst – Robyn Rout and Finance Manager – Sheree Marrah were in attendance for this item.

Mrs Rout and Mrs Marrah advised that the report presented the draft Remission and Postponement of Rates Policy for the Committee’s consideration. Once approved, the draft Policy will be used for public consultation in accordance with the section 82 of the Local Government Act 2002 from 18 March until 21 April 2017.

The Meeting noted that the Remission and Postponement of Rates Policy specifies the circumstances where the Council will consider remitting or postponing rates and that the Policy aims to:

- provide financial assistance and support to ratepayers where it is reasonable;
- address possible rating anomalies; and
- provide Council with the ability to act reasonably in administering its rating powers and policies.

Mrs Rout and Mrs Marrah also advised that the only significant change to the Policy is the inclusion of remission of rates for natural disasters and emergencies. Discussion is also included in the report on other areas that Councils include in their policies for your information and consideration. The remaining changes in the draft Policy attached are clarification of the supporting documentation required and the applicable remission periods for each of the remission and postponement categories. The responsibilities and financial limits in the roles and responsibilities schedule have also been clarified.

Resolution

Moved Mayor Tong, seconded Chairperson Kremer **and resolved:**

That the Finance and Audit Committee:

- a) Receives the report titled “Draft Remission and Postponement of Rates Policy” dated 1 March 2017.**
- b) Determines that this matter or decision be recognised as not significant in terms of Section 76 of the Local Government Act 2002.**
- c) Determines that it has complied with the decision-making provisions of the Local Government Act 2002 to the extent necessary in relation to this decision; and in accordance with Section 79 of the Act determines that it does not require further information, further assessment of options or further analysis of costs and benefits or advantages and disadvantages prior to making a decision on this matter.**
- d) Approves the draft Remission and Postponement of Rates Policy (attached to the officers’ report) for release for public consultation.**
- e) Undertakes consultation in accordance with section 82 of the Local Government Act 2002 from 18 March until 21 April 2017.**

Public Excluded

Exclusion of the Public: Local Government Official Information and Meetings Act 1987

Resolution

Moved Cr Douglas, seconded Mayor Tong **and resolved:**

That the public be excluded from the following part(s) of the proceedings of this meeting.

C8.1 Draft Early Payment of Rates Policy

C8.2 Risk Register - Quarterly Update March 2107

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

| General subject of each matter to be considered | Reason for passing this resolution in relation to each matter | Ground(s) under section 48(1) for the passing of this resolution |
|---|---|--|
| Draft Early Payment of Rates Policy | 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. | That the public conduct of the whole or the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists. |
| Risk Register - Quarterly Update March 2107 | s7(2)(h) - The withholding of the information is necessary to enable the local authority to carry out, without prejudice or disadvantage, commercial activities. s7(2)(i) - The withholding of the information is necessary to enable the local authority to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations). | That the public conduct of the whole or the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists. |

That the Chief Executive Officer, Group Manager – Services and Assets, Group Manager – Environmental Services, Group Manager – Community and Futures, Chief Financial Officer, Communications Manager, Committee Advisor, Policy Analyst and Finance Manager be permitted to remain at this meeting, after the public has been excluded, because of their knowledge of the items C8.1 Draft Early Payment of Rates Policy and C8.2 Risk Register - Quarterly Update March 2107. This knowledge, which will be of assistance in relation to the matters to be discussed, is relevant to those matters because of their knowledge on the issues discussed and meeting procedure.

The public were excluded at 10.08am.

Resolutions in relation to the confidential items are recorded in the confidential section of these minutes and are not publicly available unless released here.

The meeting concluded at 10.40am.

CONFIRMED AS A TRUE AND CORRECT RECORD AT A MEETING OF THE FINANCE AND AUDIT COMMITTEE HELD ON WEDNESDAY 15 MARCH 2017.

DATE:.....

CHAIRPERSON:.....

Extraordinary Finance and Audit Committee

OPEN MINUTES (UNCONFIRMED)

Minutes of a meeting of Extraordinary Finance and Audit Committee held in the Council Chambers, 15 Forth Street, Invercargill on Wednesday, 26 April 2017 at 3.05pm.

PRESENT

Chairperson Ebel Kremer
Mayor Gary Tong
Councillors John Douglas
Paul Duffy

IN ATTENDANCE

| | |
|-------------------------------------|--------------|
| Councillor Keast | Ian Marshall |
| Group Manager – Services and Assets | Anne Robson |
| Chief Financial Officer | Fiona Dunlop |
| Committee Advisor | |

1 Apologies

There were no apologies.

2 Leave of absence

There were no requests for leave of absence.

3 Conflict of Interest

There were no conflicts of interest declared.

4 Public Forum

There was no public forum.

5 Extraordinary/Urgent Items

There were no Extraordinary/Urgent items.

Public Excluded

Exclusion of the Public: Local Government Official Information and Meetings Act 1987

Recommendation

That the public be excluded from the following part(s) of the proceedings of this meeting.

**C6.1 Te Anau Wastewater Discharge Project
C6.2 Roothing Alliance Contracts**

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

| General subject of each matter to be considered | Reason for passing this resolution in relation to each matter | Ground(s) under section 48(1) for the passing of this resolution |
|---|---|--|
| Te Anau Wastewater Discharge Project | s7(2)(a) - The withholding of the information is necessary to protect the privacy of natural persons, including that of a deceased person. s7(2)(i) - The withholding of the information is necessary to enable the local authority to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations). | That the public conduct of the whole or the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists. |
| Roothing Alliance Contracts | s7(2)(h) - The withholding of the information is necessary to enable the local authority to carry out, without prejudice or disadvantage, | That the public conduct of the whole or the relevant part of the proceedings of the meeting would be likely to |

| | | |
|--|--|--|
| | <p>commercial activities.</p> <p>s7(2)(i) - The withholding of the information is necessary to enable the local authority to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations).</p> | <p>result in the disclosure of information for which good reason for withholding exists.</p> |
|--|--|--|

That the Group Manager – Services and Assets, Chief Financial Officer, Community Partnerships Leader (S Moran), Communications Manager, Governance and Democracy Manager, Strategic Manager – Water and Waste, Commercial Lead Transport, Roding Asset Management Engineer, Strategic Manager Transport, Management Account and Committee Advisor be permitted to remain at this meeting, after the public has been excluded, because of their knowledge of the items C6.1 Te Anau Wastewater Discharge Project and C6.2 Roding Alliance Contracts. This knowledge, which will be of assistance in relation to the matters to be discussed, is relevant to those matters because of their knowledge on the issues discussed and meeting procedure.

The public were excluded at 3.06pm.

Resolutions in relation to the confidential items are recorded in the confidential section of these minutes and are not publicly available unless released here.

The meeting concluded at 4.17pm

CONFIRMED AS A TRUE AND CORRECT RECORD AT A MEETING OF THE FINANCE AND AUDIT COMMITTEE HELD ON WEDNESDAY 26 APRIL 2017.

DATE:.....

CHAIRPERSON:.....

Extraordinary Finance and Audit Committee

OPEN MINUTES

Minutes of a meeting of Extraordinary Finance and Audit Committee held in the Council Chambers, 15 Forth Street, Invercargill on Wednesday, 3 May 2017 at 11.01am.

PRESENT

Chairperson Ebel Kremer
Mayor Gary Tong
Councillors John Douglas
Paul Duffy

IN ATTENDANCE

Councillor Julie Keast
Councillor Neil Paterson
Chief Executive - Steve Ruru
Group Manager, Services and Assets - Ian Marshall
Chief Financial Officer – Anne Robson
Group Manager, Community and Futures – Rex Capil
Communications Manager – Louise Pagan
Committee Advisor – Fiona Dunlop

1 Apologies

There were no apologies.

2 Leave of absence

There were no requests for leave of absence.

3 Conflict of Interest

There were no conflicts of interest declared.

4 Public Forum

There was no public forum.

5 Extraordinary/Urgent Items

There were no Extraordinary/Urgent items.

6 Confirmation of Minutes

There were no minutes to confirm.

Public Excluded

Exclusion of the Public: Local Government Official Information and Meetings Act 1987

Resolution

Moved Mayor Tong, seconded Cr Duffy **and resolved:**

That the public be excluded from the following part(s) of the proceedings of this meeting.

C6.1 Around the Mountains Cycle Trail - Issues and Options

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

| General subject of each matter to be considered | Reason for passing this resolution in relation to each matter | Ground(s) under section 48(1) for the passing of this resolution |
|--|--|--|
| Around the Mountains Cycle Trail - Issues and Options. | <p>s7(2)(g) - The withholding of the information is necessary to maintain legal professional privilege.</p> <p>s7(2)(i) - The withholding of the information is necessary to enable the local authority to carry on, without prejudice or disadvantage, negotiations</p> | That the public conduct of the whole or the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists. |

| | | |
|--|---|--|
| | (including commercial and industrial negotiations). | |
|--|---|--|

That the Chief Executive, Group Manager - Services and Assets, Chief Financial Officer, Group Manager - Community and Futures, Communications Manager and Committee Advisor be permitted to remain at this meeting, after the public has been excluded, because of their knowledge of the items C6.1 Around the Mountains Cycle Trail - Issues and Options. This knowledge, which will be of assistance in relation to the matters to be discussed, is relevant to those matters because of their knowledge on the issues discussed and meeting procedure.

The public were excluded at 11.02am.

Resolutions in relation to the confidential items are recorded in the confidential section of these minutes and are not publicly available unless released here.

The meeting concluded at 11.30am.

CONFIRMED AS A TRUE AND CORRECT
RECORD AT A MEETING OF THE FINANCE
AND AUDIT COMMITTEE HELD ON
WEDNESDAY 3 MAY 2017.

DATE:.....

CHAIRPERSON:.....

Risk Management Review Project

Record No: R/17/4/8727
Author: Shannon Oliver, Planning and Reporting Analyst
Approved by: Rex Capil, Group Manager Community and Futures

Decision Recommendation Information

Purpose

- 1 The purpose of this report is to provide a project scope and terms of reference for reviewing council's risk management practices and to develop a risk management framework and policy review.

Executive Summary

- The Finance and Audit Committee recommended at the March meeting that “a risk management review project to be established to develop a project scope and terms of reference to be considered at the June 2017 Finance and Audit Committee meeting.”
- 2 Council's approach to risk management is in the development phase and it is acknowledged further work is required. The current Risk Management Policy is due for review.
 - 3 There have been a number of recent developments in this area that reflect business improvement opportunities.
 - 4 The proposed project scope is attached to this report along with the current Risk Management Policy.

Recommendation

That the Finance and Audit Committee:

- a) **Receives the report titled “Risk Management Review Project” dated 24 May 2017.**
- b) **Determines that this matter or decision be recognised as not significant in terms of Section 76 of the Local Government Act 2002.**
- c) **Determines that it has complied with the decision-making provisions of the Local Government Act 2002 to the extent necessary in relation to this decision; and in accordance with Section 79 of the Act determines that it does not require further information, further assessment of options or further analysis of costs and benefits or advantages and disadvantages prior to making a decision on this matter.**
- d) **Endorses the project scope and terms of reference for the Risk Management Review Project.**
- e) **Recommends to Council approval of the project scope and terms of reference for the risk management review project.**

Content

Background

- 5 Council has currently a number of risk management practices including a risk register and quarterly reporting cycle. The risk register is reviewed by the Executive Leadership Team and a report is produced for the Finance and Audit Committee.
- 6 Council has a Risk Management Policy that was adopted in December 2014 but it is now overdue for review. This Policy is attached for information purposes.
- 7 Council does not operate within a clearly defined risk management framework currently.

Issues

- 8 The current policy needs to be reviewed.
- 9 A risk management framework needs to be developed.
- 10 The success of the framework will depend on the ability to embed risk management throughout the Council systems and procedure and processes.

Factors to Consider

Legal and Statutory Requirements

- 11 The Finance and Audit Committee has responsibility for:
 - “Reviewing whether Council has in place a current, comprehensive and effective risk management framework and associated procedures for effective identification and management of the Council’s significant risks;
 - “Considering whether appropriate action is being taken to mitigate Council’s significant risks.”
- 12 Section 10 of the Local Government Act 2002 defines the purpose of local government is to enable:
 - A) To enable democratic local decision-making and action by, and on behalf of, communities; and
 - B) To meet the current and future needs of communities for good-quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost-effective for households and businesses.

Good-quality, in relation to local infrastructure, local public services, and performance of regulatory functions, means infrastructure, services, and performance that are—

 - (a) Efficient; and
 - (b) Effective; and
 - (c) Appropriate to present and anticipated future circumstances.
- 13 In order to provide good quality services, appropriate risk management practices need to be in place.

Community Views

- 14 Community views have not been sought as this project relates to internal operational practices. There would be an expectation from the community that council adopted a best practice approach as per the Finance and Audit committee terms of reference.

Costs and Funding

- 15 At this point in time no indication of the proposed budget is available. A project brief will be developed as a result of this project scope being endorsed by the Finance and Audit Committee which will include a project budget.

Policy Implications

- 16 Any future changes to risk management need to comply with Council policies

Analysis

Options Considered

Analysis of Options

Option 1 – Support the project scope and Terms of Reference to allow the Risk Management Review Project to proceed

| <i>Advantages</i> | <i>Disadvantages</i> |
|--|---|
| <ul style="list-style-type: none"> • Best practice principles are adhered to • Provides direction and endorsement of the approach to be actioned | <ul style="list-style-type: none"> • Require additional resource or reallocation of existing resource once detail is determined. |

Option 2 – Not support the project scope and Terms of Reference

| <i>Advantages</i> | <i>Disadvantages</i> |
|---|--|
| <ul style="list-style-type: none"> • Require additional resource or reallocation of existing resource once detail is determined. | <ul style="list-style-type: none"> • Best practice principles are not adhered to • Does not provide direction and endorsement of the approach to be actioned |

Assessment of Significance

- 17 The report is not considered significant in relation to the Councils Significance and Engagement policy.

Recommended Option

- 18 Option 1 – Support the project scope and Terms of reference to allow the risk management review project to proceed.

Next Steps

- 19 Recommend the scope be approved by Council

- 20 Require officers to develop a project brief and budget to allow the project to proceed to the next stage

Attachments

- A Risk Management Policy 2015 [↓](#)
- B Risk Management Framework Project Scope and Terms of Reference [↓](#)

SOUTHLAND DISTRICT COUNCIL RISK MANAGEMENT POLICY

This policy applies to: Council, Elected members and Council staff.

DOCUMENT CONTROL

| | | |
|---|---|---|
| Policy owner: Chief Executive | TRIM reference number: r/14/9/14091 | Effective date: 29 October 2014 |
| Approved by: Activities Performance Audit Committee | Date approved: 29 October 2014 | Next review date: November 2015 |

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RISK MANAGEMENT POLICY

1. PURPOSE

The Southland District Council is a territorial authority and governed by the Local Government Act 2002. The Council is responsible to the people of the District.

Council has a wide-range of obligations such as legal, financial, regulatory, political, social and cultural obligations.

Council recognises the need to manage risks for all activities of Council. In today's ever-changing environment it is especially important to understand Council's risks in order to be proactive in mitigating our exposure to risks and consequences. Risk assessments result in better more informed decisions.

This policy exists to:

- Make risk management a reality of how we do things,
- Integrate best practice risk management into policy, planning and operational decisions based on Joint Australian New Zealand Standard - Risk Management - Principles & Guidelines (AS/NZ ISO 31000:2009),
- Develop a holistic approach to managing a range of risks facing Council,
- Develop awareness and common understanding of Council's risk management expectations,
- Incorporate risk management into all key decision-making processes, business planning and reporting,
- Embed best practice risk management into every day work in a balanced, structured and cost effective way,
- Provide risk management training and learning opportunities for Council and employees.

Council recognises risk management is an integral component of its operations, from the setting of priorities right through to the achievement of goals and milestones. Risk management occurs not as a one-off management or control exercise but as an on-going requirement for all staff to identify opportunities that should enhance Council's objectives and address risks that may negatively impact on the achievement of those objectives.

2. DEFINITIONS AND ABBREVIATIONS

| Term | Meaning |
|-------------------------|--|
| Acceptable Risk | A risk that is suitable as is given the context in which Council operates. |
| Effect | An effect is a deviation from the expected. |
| Objectives | Objectives can have different aspects (such as financial, health and safety, and environmental goals) and can apply at different levels (such as strategic, organisation-wide, project, product and process). |
| Risk | <p>Risk is the effect of uncertainty on objectives.</p> <ul style="list-style-type: none"> • Risk is often characterised by reference to potential events and consequences, or a combination of these. • Risk is often expressed in terms of a combination of the consequences of an event (including changes in circumstances) and the associated likelihood of occurrence. |
| Risk Appetite | This is the level of risk that Council accepts to be allowed as determined in Section 3.5. |
| Risk Management | Risk management is the culture, process and structures that are directed towards the effective management of potential opportunities and adverse effects. |
| Risk Management Process | The risk management process is the systematic application of management policies, procedures and practices to the tasks of establishing the context, identifying, analysing, evaluating, treating, monitoring and communicating risks. |
| Risk Tolerance | Is the resilience of the Council to overcome the consequences of an event, normally expressed as a financial sum or recovery period. |
| Tolerable Risk | A risk that is bearable given the context in which Council operates after the risk has been assessed and treated to the best extent given the resources required, but is still not acceptable to Council. |
| Uncertainty | Uncertainty is the state, even partial, of deficiency of information related to, understanding or knowledge of an event, its consequence, or likelihood. |

3. POLICY DETAILS

3.1 Background

Within the Council, a formal approach to risk management is in its establishment phase - beginning with this policy and the implementation of a formal risk register and reporting process.

Risk management best practice has shifted from the traditional operational focus into enterprise-wide risk management. Council needs to reflect this shift in its practices. The Council recognises the need to develop and apply a Risk Management Policy to all its objectives and across all organisational levels of the Council.

Risk management is an iterative process. As risks are identified and reviewed/managed periodically, this information becomes more accurate and therefore resulting in more informed decision-making.

The Council is a complex and diverse organisation that is increasingly aware that to meet its long term objectives risks should be managed.

3.2 Overview

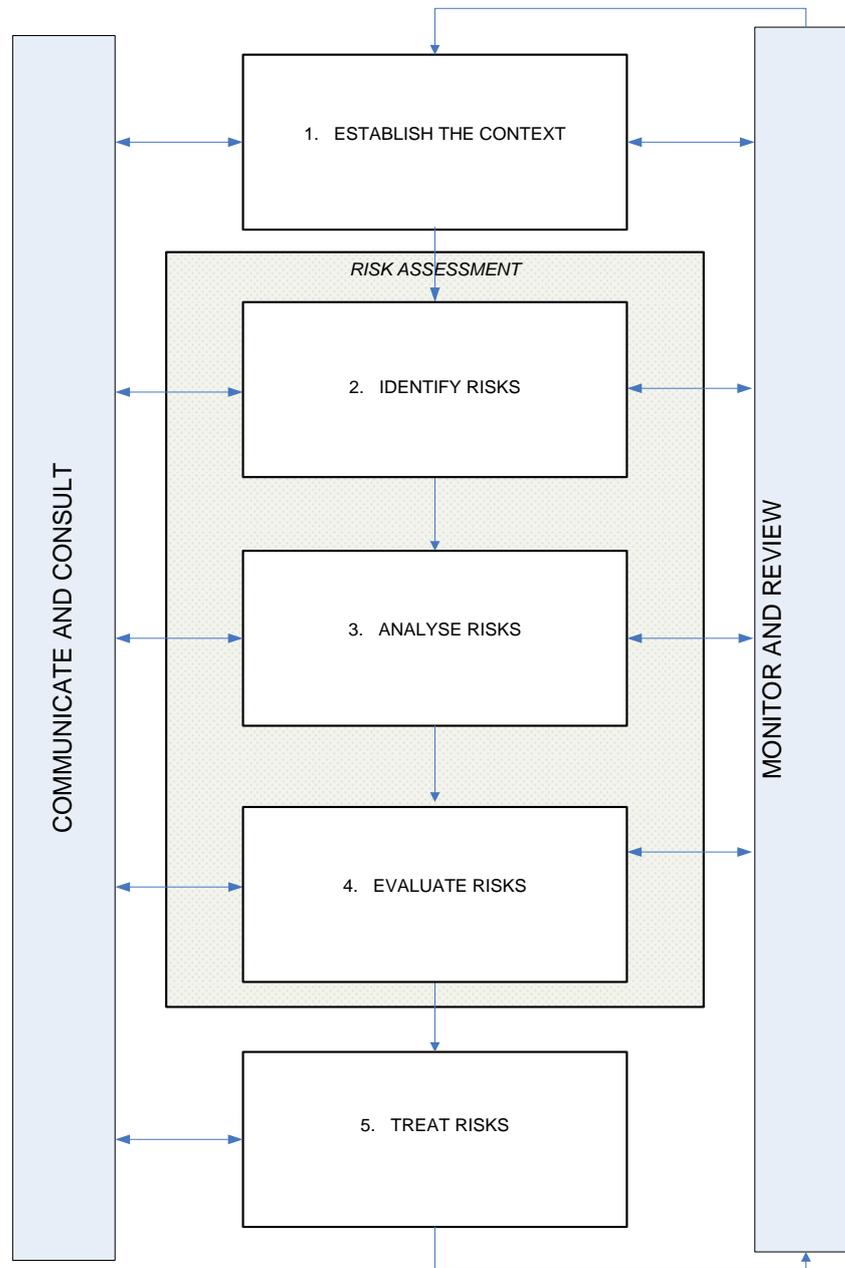
The Council recognises that risk management is not an isolated activity, nor a yearly compliance activity. To be truly effective, risk management must integrate into the organisational structure and the objectives of the Council. The integrated framework below visually represents the inter-relationship between:

- Risk management process
- Focus
- Organisational Structure



This matrix shows that the risk management process applies to all the objectives of the Council and penetrates down through from the highest *level* of the Council organisational structure to the very lowest level. In turn, it should also be clear that objectives do not sit in isolation at each level in the organisation structure but that each part of the Council structure works to support the strategic objectives.

The risk management process is illustrated below:



3.3 Establish the Context

Southland District Council is a territorial local authority. The internal environment, governance structure, powers, duties, authorities, codes of conduct, values and ethics and responsibilities are primarily determined by the Local Government Act (2002).

In the same way that commercial enterprises are accountable to their shareholders, Council is accountable to the people of Southland District. Most citizens expect Council to have higher standards than the private sector of stewardship and prudence in safeguarding and spending the public purse.

A focus on risk management will reflect a new organisational culture and in turn influences the setting of strategies and objectives.

The recent amendments to the LGA 2002 have changed the focus of Council from:

Section 10(b) *'to promote the social, economic, environmental, and cultural well-being of communities, in the present and for the future.'*

to -

'to meet the current and future needs of communities for good-quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost-effective for households and businesses.'

Council is moving towards the formal management of its risks to compliment this new focus.

Objectives of Council

The strategic objectives of the Council are set out in the Long Term Plan and these establish the basis of the Council activities and operations, in particular the discrete projects the Council will undertake to meet the wants and expectations of people of the District. In addition to the strategic objectives, the Council has operational objectives to meet the demand for both statutory and non-statutory Council services. Setting objectives drives the operational activities required and sets the reporting requirement for monitoring to ensure alignment with objectives. In setting objectives, it is essential that consideration is given to the Council's risk appetite and tolerance.

3.4 Identify Events (risks)

Once objectives are set then events that may stop, delay or otherwise hinder the achievement of objectives are considered. To assist in identifying events it can be useful to categorise these. The categories below are not an exhaustive list but a guide to assist in identifying what can happen.

Internal (direct influence):

- Governance,
- Delivery of commitments,
- Customers,
- Operations,
- People,
- Processes,
- Technology,

- Information management,
- Financial,
- Legal and regulatory compliance,
- Assets.

External (indirect, limited or no influence):

- Reputation,
- Partners,
- Election outcomes,
- Statutory changes,
- Socio cultural,
- Environment,
- Economic.

Definitions of the above risk categories are in Appendix 1.

3.5 Analyse and Evaluate Risks

By identifying what events can happen we can now consider what effect the occurrence would have on achieving the objective(s). To assess what the affect would be Council needs to consider the likelihood, or probability, that the event will occur and the impact, or consequence(s), of the occurrence.

Please refer to the tables in Appendix 2.

| Score | Consequence | Probability |
|-------|---------------|----------------|
| 1 | Insignificant | Rare |
| 2 | Minor | Unlikely |
| 3 | Moderate | Moderate |
| 4 | Major | Likely |
| 5 | Extreme | Almost Certain |

The Executive Leadership Team is responsible for assessing risk.

Council will plot the probability against the consequence to create a risk profile that helps to prioritise risks based on their probability and consequence. This in turn assists in determining the most appropriate actions to respond to the prioritised risks.

When assessing the probability of a risk, consideration will be given to the risks occurrence (risk velocity). A risk may occur as a sudden event or due to a series of events over time. A risk that requires a series of events is less probable of occurring than an event that can occur in an instant.

The following table demonstrates the actions required given the assessment:

| Guide | Action Required |
|----------------------------|--|
| Acceptable | Risk is insignificant. To be managed by operational staff/managers. |
| Unacceptable but tolerable | Risk may be unacceptable. Department Manager to manage risk to ensure risk is tolerable. Executive staff need to be informed. |
| Unacceptable | Risk is unacceptable. Requires a formal assessment and managed by the Executive Leadership Team to mitigate. |
| Intolerable | Risk is too great. Requires a formal assessment and details of all possible treatments. To be managed by the Executive Leadership Team with the Activities Performance Audit Committee being informed. |

3.6 Treat Risks

In considering the best way to manage a risk, the Council will consider the following options:

| Response | Description |
|--------------------|---|
| Avoid | Avoiding the risk by deciding not to start or continue with the activity that gives rise to the risk. |
| Accept | Taking or increasing risk in order to pursue an opportunity. |
| Remove Source | Removing the risk source. |
| Change Likelihood | Changing the likelihood. |
| Change Consequence | Changing the consequence. |
| Share | Sharing the risk with another party or parties (including contracts and risk financing). |
| Retain | Retaining the risk by informed decision. |

There are no set rules in applying these options, although generally low risk activities are acceptable and higher risk activities are only undertaken if there is a statutory duty or if there are significant rewards. In considering the identified risks, one must firstly consider the context of the activity that creates the risk to decide whether an option is available. Equally, the options are not mutually exclusive and for some identified risks, the optimum solution will be a combination of the options.

All treatments recorded against a risk will be assigned an owner. That owner will be responsible to ensure that the treatment is working as expected or to report any concerns or failures of the treatment.

3.7 Information and Communication

To be effective, risk management requires a reporting structure that ensures that data and information be captured and communicated at an appropriate level to enable decisions.

There is a continual process of event identification, assessment and response that requires the best information available.

- All staff responsible for risks will receive a quarterly report of their risks to manage.
- All staff will inform the Assurance Officer of potential new risks and any changes to a risk or their treatments.
- All staff responsible for a risk will ensure that all other parties (internal and external) are informed of the risk and treatments in place.
- The Activities Performance Audit Committee will receive a KPI report on the risks of Council at every meeting with commentary from the Assurance Officer.
- Every year after 30 June the Activities Performance Audit Committee will report to Council on the risk management process.
- The risk register and policy will be able to be accessed via the intranet (to view).

3.8 Monitoring

The Activities Performance Audit Committee is responsible for monitoring the management of Council risks. (effectively the governing body to risk management).

All staff are responsible for monitoring the risks and controls in their various areas.

The Assurance Officer is responsible for monitoring staff compliance to risk management.

The Executive Leadership Team will ensure all staff comply with this policy and instigate disciplinary action if/when required.

3.9 Risk Appetite and Tolerance

Council accepts that each group/department/area can set its own appetite and tolerance, but must use as a very minimum the colour-coding of the risk matrix as highlighted in Section 3.5 as a proxy for appetite and tolerance.

The Council recognises the limitations of risk matrices as a guide to appetite and tolerance, particularly in relation to high consequence/low probability and high probability/low consequence risks.

3.10 Risk Register

The Council uses risk register to record identified risk, consequences, probability, controls to be used, and ownership (responsibility).

To ensure consistency, use of a standard template, (Appendix 3), is required.

4. ROLES AND RESPONSIBILITIES

Risk performance measures will be developed for staff and management to complement their work/function performance measures.

1. Council

Elected Councillors have a responsibility to the local community to govern the Council. Proper governance requires that members know and understand the risks to attaining the strategic objectives of the Council. Members are accountable for their policy decisions and should ensure decisions appropriately balance the risks and rewards.

2. Activities Performance Audit Committee

The Activities Performance Audit Committee is responsible for ensuring that Council has appropriate risk management and internal control systems in place, monitoring organisational performance in managing risk and forming a view on the overall risk profile and its acceptability.

3. Chief Executive

The Chief Executive is accountable to the Council and is responsible for the implementation of the Risk Management Policy approved by the Council and for ensuring that an appropriate risk reporting mechanism exists between officers and Council.

4. Executive Leadership Team

The Executive Leadership Team is responsible for the management of risks that affect the attainment of strategic objectives or that are a material threat to the operational capacity or reputation of the Council.

5. Executive Staff

Executive Staff are responsible for the management of operational risks that affect the attainment of their objectives or that are a material threat to the operational capacity or reputation of their group.

6. Managers

Managers are responsible for the management of operational risks that affect the delivery of their objectives or that are a material threat to the operational capacity or reputation of their area.

7. Assurance Officer

Create and implement processes required to successfully implement the policy. Provide training for affected parties. Administer processes and compile reports as required.

8. Staff

Staff are responsible for the day to day management of risks that affect the performance of their duties with the Council and subject always to the policies, plans and procedures of the Council.

9. Treatment Owners

All staff assigned the responsibility of managing a treatment will be responsible to ensure that the treatment is working as expected or to inform the Assurance Officer when the treatment has failed or concerns they have in its effectiveness.

5. REFERENCES

Joint Australian New Zealand International Standard - Risk Management - Principles and Guidelines AS/NZS ISO 31000:2009

6. REVISION RECORD

| Date | Version | Revision Description |
|------|---------|----------------------|
| | | |
| | | |
| | | |

7. APPENDICES

Appendix 1 - Risk Categories

1. Internal (Direct influence)

| | |
|--|--|
| Governance | Risk arising from the performance of duties of officers and elected representatives. Propriety/compliance with relevant requirements/ethical considerations. |
| Delivery of commitments | Risks to the development, planning and delivery of political commitments within the Long Term Plan (LTP). Consultation and communication, project management and project delivery issues. |
| Customers | Meeting needs, wants and expectations of customers in respect of Council facilities, service standards and service provision. |
| Operations | Risk arising from the day-to-day operations of Council groups and project teams. Risks that affect service delivery standards and best practice. The ability of the Council to compete and provide best value to in the provision of services. Opportunities to reduce waste and inefficiency. |
| People | Risks related to people and their well-being. Staff talent, recruitment and retention issues, including market competitiveness. Management protocols, training, development and capacity issues. Health and safety, disability and discrimination issues. Resilience and ability to change. |
| Processes | Risk associated with internal processes and how they relate to each other. The adequacy, efficient and effectiveness of these processes. The interface with other processes. |
| Technology | Risks arising from current provision of technology and changing demand/capacity. Use or misuse/security of new or existing technology. Obsolescence of current systems; opportunities arising from new technology. |
| Information management | Risks that affect the Council's ability to store, retrieve and use data and information, including adequacy for decision-making and protection of privacy. |
| Financial | Risks that affect the finances or financial planning of the Council. Includes fraud, management, control and ability to meet financial commitments and support strategies and objectives. |
| Legal and Regulatory compliance | Risk from failing to comply with statutory or common law, delegations, regulations, consents and contractual obligations, including failure to address changes to law in policy and procedures. |
| Assets | Risks that cause loss or damage to assets owned or operated by the Council to provide services. Includes land, property, equipment, information. |

2. External (Indirect, limited or no influence)

| | |
|--------------------------|--|
| Reputation | Confidence and trust stakeholders have in the organisation. Risks that may directly, or indirectly, damage the reputation of the Council or any of its elected members or key personnel. |
| Partners | Risk relating to partnerships, alliances, new ways of working, stakeholder management. |
| Election outcomes | Change of government (central and local), cross-cutting policy decisions, machinery of government changes. Includes the exertion of political influence to set or change policy, direction, objective, strategy, etcetera. Potential ratepayer dissatisfaction and/or change in direction. |
| Statutory changes | New or changed statutory environment. |
| Socio cultural | Social and cultural demographic changes that effects demand for services. Stakeholder expectation changes over time. |
| Environmental | Environmental changes such as climactic changes and Acts of God. |
| Economic | Risk relating to the economic environment. Changes in the demand for Council services, production, distribution, and consumption of goods and services. |

Appendix 2 - Consequence and Probability Tables

Consequence Table

| Score | Consequence | Description |
|-------|---------------|---|
| 1 | Insignificant | Event will have little, or no, effect on the objective(s). |
| 2 | Minor | Event will have some effect on achieving the objective(s), but well within tolerable limits. |
| 3 | Moderate | Event will affect the achievement of the objective(s), but within tolerable limits. |
| 4 | Major | Event will affect the achievement of objective(s), beyond tolerable limits. Remedial action will be required. |
| 5 | Extreme | Event will affect the viability of the objective(s), may be too late or too costly to take remedial action. |

Probability Table

| Score | Probability | Description |
|--------------|----------------|--|
| 1 (0-20%) | Rare | Will only happen within a year if Council is unfortunate. |
| 2 (20-40%) | Unlikely | Is unlikely to occur within a year given all considerations. |
| 3 (40%-60%) | Moderate | Is likely to occur within a year given all considerations. |
| 4 (60%-80%) | Likely | Will happen within a year unless Council is fortunate. |
| 5 (80%-100%) | Almost Certain | Will happen within a year. |

| SUMMARY RISK PROFILE | | | | | | |
|--|---|---|---------|----------------|---|----|
| (enter each risk number on this table) | | | | | | |
| Consequence | 5 | | #2 | | | |
| | 4 | | #4, #10 | #1 | | |
| | 3 | | | #9, #5, #7, #8 | | #3 |
| | 2 | | | #6 | | |
| | 1 | | | | | |
| | | 1 | 2 | 3 | 4 | 5 |
| Probability | | | | | | |

The above graph is coloured to reflect the likely risk responses described in Section 3.5. Responses range from Accept (green) to Avoid (deep red).

Appendix 3 - Consequence and Probability Tables

| Risk # | Risk Description | Classification | Risk Type | Activity | Consequences | Objective(s) affected | Consequence ranking | Probability | Current Treatments (with owner) | Consequence ranking (after treatments) | Probability (after treatments) | Planned Mitigations (Treatments) | Consequence ranking (after planned treatments) | Probability (after planned treatments) | Owner |
|--------|------------------|----------------|-----------|----------|--------------|-----------------------|---------------------|-------------|---------------------------------|--|--------------------------------|----------------------------------|--|--|-------|
| | | | | | | | | | | | | | | | |
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Item 7.1 Attachment A

Project Scope and Terms of Reference

Southland District Council Review of the Risk Management Framework and Policy

Version Control

| Version | Date updated | Document | By Who |
|-----------------------|---------------|---------------|----------------|
| Draft | 26 April 2017 | Project Scope | Shannon Oliver |
| For comment | | Project Scope | Rex Capil |
| F&A committee adopted | June 2017 | Project Scope | Shannon Oliver |
| | | | |

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| Reporting and Monitoring | 4 |
| Stakeholder engagement and consultation | 4 |
| Conclusion | Error! Bookmark not defined. |

PROJECT OVERVIEW

| | |
|----------------------|---|
| Project Sponsor: | Rex Capil - Community and Futures Group Manager |
| Project Coordinator: | To be appointed |
| Project Name: | Risk Management Review Project |
| Project Start Date: | To be confirmed |
| Project End Date: | To be confirmed |

Project Purpose

At the March Finance and Audit committee meeting it was agreed that council officers be directed to: **Requests a risk management review project to be established to develop a project scope and terms of reference to be considered at the June 2017 Finance and Audit committee meeting.**

The purpose of the Risk Management Review Project work is to:

- Develop a comprehensive, robust and effective risk management framework, policy and associated procedures.
- Ensure best practice models are used.

At a recent Society of Local Government Managers Risk Management forum held in February 2017, best practice suggested that the risk management journey should be a three year planned process.

| | |
|------------|--|
| YEAR ONE | Focusing on the development of the risk policy and framework, developing a top down risk profile, integration into Audit and Risk committee reporting, communicating within the organisation and training. |
| YEAR TWO | Focusing on aligning with strategy timelines, articulating the risk appetite, integrate into decision making and reporting, drill down risk profiles e.g. H&S, Development of a risk based internal audit programme, embedding the risk culture. |
| YEAR THREE | Includes reviewing technology options and a risk culture survey. |

This review project relates to the work to develop a risk management framework and a review of the current policy.

The Risk Management framework and policy will assist to:

- Provide effective identification and management of the Council's significant risks.
- Ensure appropriate action is being taken to mitigate Council's significant risks.
- Ensure there are associated procedures for effective identification and management of the Council's significant risks.

Background

The Southland District Council has recently formed a Finance and Audit Committee. As part of the terms of reference for the Committee it states that it is responsible for:

- (a) "Reviewing whether Council has in place a current, comprehensive and effective risk management framework and associated procedures for effective identification and management of the Council's significant risks;
- (b) Considering whether appropriate action is being taken to mitigate Council's significant risks."

Council's approach to risk management is still in the establishment and development phase with further work required. The current policy is due for review. There have been a number of recent developments in this area and work is required to improve the systems we have in place so they reflect best practice and are fit for purpose of what we require in the future.

Work in the risk management area is a work in progress and will require a priority focus as deemed appropriate in the coming years.

As part of this process and as per the Finance and Audit committee terms of reference it is intended that this committee will play an integral part in the establishment and development phase of risk management work.

This project will focus on the work required in year one of the risk management journey.

Objectives

Objectives for this project are:

- To establish the scope, schedule and requirements for development of risk management work within Council.
- To ensure the process meets statutory requirements and best practice.
- To ensure that councillors and other elected representatives are involved and kept updated throughout development of the project

Definitions

Risk management is about identifying events that might happen in the future that will have an impact on Councils objectives, then working out what further action, if any, is appropriate (and cost-effective) to manage and mitigate the risk.

Risks are uncertain future events that could impact on the organisations ability to achieve its objectives.

Compliance refers to adhering with the company's policies, procedures, laws and regulations.

Project Scope

Risk management is a planned approach to identify, analyse and manage the risks within the council.

The scope of work includes:

- Development of a risk management framework.
- Review and update the Council policy and procedures relating to risk.
- Presenting the recommendation report to the Finance and Audit Committee and Council.
- Developing an action plan including estimate of budget, human resource requirements and timeframes for implementation.

- Developing an internal communications and engagement plan for the project.

WITHIN THE SCOPE

The project to give consideration to:

- Risk management framework
- Risk management policy
- Risk management register
- Risk system and processes
- Risk reporting
- Team plan – risk register
- Office of the Audit General - Three lines of defence model
- Incorporation into Asset Management Plans
- Risk treatment planning (with owners and timeframes for implementation)
- Uses the principles of risk management in developing the framework.

OUTSIDE OF THE SCOPE

The project does not include:

- Integration with current business processes and training to staff
- Ongoing implementation of risk and compliance
- Legal compliance framework
- Programme to manage legal compliance including a legal spend register – set up register for purchase of legal advice and register legal opinions.

Project Context

Background

Council's Risk Management systems need to be updated to align to support business improvement objectives. The current policy is now out of date. A comprehensive risk framework needs to be developed and our approach to risk management practices.

Delivery

A consultant will be used to develop the framework and review and recommend appropriate systems be put in place for risk management within council.

What do we need to take into account?

- Statutory requirements
- Current systems and processes
- Future projects
- Budget
- Existing resources
- Future resources
- That we create an approach that is robust but not unwieldy to implement and monitor
- Fit for purpose for the local government environment

How to get an integrated system?

- Create an approach that is robust but not unwieldy to implement, monitor or report on
- Fit for purpose for the local government environment
- Ensure the approach will fit within our current reporting structures

What are the interdependencies?

- Procurement policy
- Asset Management Plans
- Project machine
- Long Term Plan
- Organisational projects – digitisation, core systems, remuneration, performance framework, internal audit

Standards

Ensure all risk management is to the latest best practice standards (AS/NZS ISO 31000:2009).

Consultant Requirements

Experience of Consultant in:

- Local Government
- Risk Management

Key Deliverables

The key deliverables for the project are:

- Risk Management Framework
- Updated Risk Management Policy

Reporting and Monitoring

Reports will be provided to ELT on the progress of the project and will address the following information:

- Stage of the process.
- Key milestones met or missed.
- Gaps in information.
- New information.
- Recommendations for the next stage of the project.

Stakeholder engagement and consultation

A stakeholder engagement plan and communications plan will be developed to support the risk management review process.

The Stakeholder Engagement Plan and Communications Plan will use communications channels and the processes that best meet the needs of stakeholders and state clear timeframes.

Draft Early Payment of Rates Policy

Record No: R/17/5/9921
Author: Robyn Rout, Policy Analyst
Approved by: Anne Robson, Chief Financial Officer

Decision Recommendation Information

Purpose

- 1 This report requests that the Finance and Audit Committee (the Committee) endorses the draft Early Payment of Rates Policy and recommends to Council that the draft Policy be adopted.

Executive Summary

- 2 The draft Early Payment of Rates Policy allows ratepayers connected to some sewerage and water schemes to make full payments of loan rates early, to reduce their overall costs.
- 3 In March this year the Committee endorsed the draft Policy. The draft Policy included some minor changes to the liability and payment sections, to staff roles/responsibilities, and some other changes were made to improve clarity. The draft Policy was put out for consultation in accordance with the Special Consultative Procedure in March and April this year. No submissions were received through the consultation process and no changes have been made to the draft Policy.
- 4 This report recommends that the Committee endorse the draft Policy and recommend to Council that the draft Policy be adopted (with any other desired amendments).

Recommendation

That the Finance and Audit Committee:

- a) **Receives the report titled “Draft Early Payment of Rates Policy” dated 24 May 2017.**
- b) **Determines that this matter or decision be recognised as not significant in terms of Section 76 of the Local Government Act 2002.**
- c) **Determines that it has complied with the decision-making provisions of the Local Government Act 2002 to the extent necessary in relation to this decision; and in accordance with Section 79 of the Act determines that it does not require further information, further assessment of options or further analysis of costs and benefits or advantages and disadvantages prior to making a decision on this matter.**
- d) **Endorses the draft Early Payment of Rates Policy.**
- e) **Recommends to Council that the draft Early Payment of Rates Policy be adopted.**

Content

Background

- 5 The Southland District Council has undertaken a number of capital projects connecting houses to sewerage and water schemes. At the time of establishing the schemes, ratepayers were given the option to pay their share of the cost of connecting their property as a lump sum or by way of a loan over a specified period of time. These loans are repaid back to the Council as specified rates.
- 6 The draft Policy allows ratepayers connected to these schemes to make an early repayment of the total balance remaining of the specified rate, rather than making annual payments. Making an early repayment offers ratepayers the opportunity to reduce their overall interest cost. The Policy also clarifies the position of Southland District Council on the early payment of other types of rates.
- 7 The draft Policy includes some minor changes to the previous Policy. These include:
 - correcting staff roles/responsibilities
 - minor changes to the liability and payment parts of the draft Policy
 - minor changes to improve clarity
 - removing the table outlining the outstanding liability for each loan rate from the draft Policy.
- 8 The specified rates liability values change annually (in July) depending on the internal interest rate set by Council as part of the Annual Plan/Ten Year Plan process. After the specified rates are adopted, ratepayers will have access to this information via Council's website or Council offices. The information will be in a schedule, which will outline the liability outstanding for each specified rate.
- 9 The draft Policy was endorsed by the Committee and released for consultation in accordance with the Special Consultative Procedure from 18 March until 21 April 2017.

Issues

- 10 No submissions were made on the draft Policy, so officers are not aware of any concerns or changes that need to be made.

Factors to Consider

Legal and Statutory Requirements

- 11 Under section 55 of the Local Government (Rating) Act 2002 (LGRA), a local authority may adopt a policy for the payment of some or all rates that are identified in the rates assessment, before the due date(s) for those rates in the current financial year. A policy adopted under this section allows the local authority to discount the amount of the rates if payment is made by a specified date before the due date or dates.
- 12 Under section 56 of the Local Government (Rating) Act 2002 (LGRA), a local authority requires a policy for the early repayment of rates where they offer ratepayers the option of paying rates in anticipation of rates being set for future years ie: loan rate repayments.

- 13 There is no legislative requirement for the draft policy to be included in the Long Term Plan. The Statement of Proposal allows the Early Payment of Rates Policy to be released for public consultation in compliance with the SCP.

Community Views

- 14 People in the District have had an opportunity to present their views through the consultation process that was run through March and April this year. No submissions were received. It was anticipated that there would not be a high level of community interest in this matter.
- 15 When the current Early Payment of Rates Policy was put out for consultation in 2015, Council received four submissions indicating support for the policy. The submissions did not provide any further comment.

Costs and Funding

- 16 There are no significant costs associated with adopting the draft Policy.

Policy Implications

- 17 The draft Policy will not be included in the Long Term Plan 2018-2028. It does not impact significantly on other financial issues or rating.

Analysis

Options Considered

- 18 The Committee could choose:
- Option 1: To endorse the Early Payment of Rates Policy (with any desired amendments); or
 - Option 2: To not have an Early Payment of Rates Policy.
- 19 If Option 2 is chosen, Council will not legally be able to accept the early payment of rates under Section 55 of the Local Government (Rating) Act (2002).

Analysis of Options

Option 1 – To endorse the Early Payment of Rates Policy (with any desired amendments)

| <i>Advantages</i> | <i>Disadvantages</i> |
|--|--|
| <ul style="list-style-type: none"> • Provides flexibility for ratepayers to make payments in an appropriate manner. • Reduced overall cost to ratepayers as a result of saving on interest. • Allows Council to continue receiving early payment of rates in compliance with legislation. | <ul style="list-style-type: none"> • Higher level of administration required. |

Option 2 –

| <i>Advantages</i> | <i>Disadvantages</i> |
|--|---|
| <ul style="list-style-type: none">• Less administration involved for Council officers. | <ul style="list-style-type: none">• Rates would need to be collected on an annual basis and as such ratepayers would pay more annually as a result of interest.• There is no flexibility available in how individuals wish to make payments. |

Assessment of Significance

- 20 The adoption of an Early Payment of Rates Policy has not been assessed as significant. The draft Policy does not impact significantly on other financial issues or rating.

Recommended Option

- 21 It is recommended that the Committee select Option 1 and endorse the Early Payment of Rates Policy (with any desired amendments).

Next Steps

- 22 If the Committee endorses the draft Policy and recommends it is adopted, the draft Policy will then be presented to Council to be formally adopted.

Attachments

- A Draft Early Payment of Rates Policy [↓](#)

SOUTHLAND DISTRICT COUNCIL EARLY PAYMENT OF RATES POLICY

This policy applies to: Ratepayers who pay specified rates.

DOCUMENT CONTROL

| | | |
|--|---|--------------------------------|
| Policy owner: Chief Financial Officer | TRIM reference number: r/16/10/17873 | Effective date: 1 July 2017 |
| Approved by: Council | Date approved: To be confirmed | Next review date: 2020 |

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EARLY PAYMENT OF RATES POLICY

1. PURPOSE

This Policy is to provide ratepayers with the opportunity to extinguish their liability to pay specified rates sooner than under a long term rating option, and at a discount to the amount payable over time. This policy also clarifies the position of Southland District Council (Council) on the receipt of other rates as early payments.

2. DEFINITIONS

“Specified rates” means any one of the following targeted rates:

- Edendale Sewerage Loan - 10 years (including connection cost),
- Edendale Sewerage Loan - 15 years (including connection cost),
- Edendale Sewerage Loan - 25 years (including connection cost),
- Edendale Sewerage Loan - 10 years (excluding connection cost),
- Edendale Sewerage Loan - 25 years (excluding connection cost).

- Edendale Water Loan - 10 years,
- Edendale Water Loan - 15 years,
- Edendale Water Loan - 25 years.

- Gorge Road Sewerage Loan.

- Oban Sewerage - Loan Charge Extension.

- Sandy Brown Road Utility Loan.

- Tuatapere Sewerage Loan Charge - 15 years,
- Tuatapere Sewerage Loan Charge - 25 years.

- Wallacetown Sewerage Loan Charge - 15 years,
- Wallacetown Sewerage Loan Charge - 25 years.

- Wyndham Sewerage Loan - 10 years (including connection cost),
- Wyndham Sewerage Loan - 15 years (including connection cost),
- Wyndham Sewerage Loan - 25 years (including connection cost),
- Wyndham Sewerage Loan - 10 years (excluding connection cost),
- Wyndham Sewerage Loan - 15 years (excluding connection cost),
- Wyndham Sewerage Loan - 25 years (excluding connection cost).

- Wyndham Water Loan - 10 years,
- Wyndham Water Loan - 15 years,
- Wyndham Water Loan - 25 years.

3. BACKGROUND

3.1 Paying specified rates for subsequent financial years

Under Section 56 of the Local Government (Rating) Act 2002, councils may adopt a policy on the payment of rates for subsequent financial years. Council has decided to adopt this Policy for the specified rates listed in section 2 above.

3.2 Paying other rates for subsequent financial years

Under Section 56 of the Local Government (Rating) Act 2002, councils may adopt a policy on the payment of rates for subsequent financial years.

In accordance with Section 55 of the Local Government (Rating) Act 2002, which empowers councils to accept early payment of rates, Council will accept payment of rates, other than specified rates, for subsequent financial years. However, early payment of these rates will attract neither a discount, nor interest on the sum paid.

3.3 Paying rates for the current financial year

In accordance with Section 55 of the Local Government (Rating) Act 2002, which empowers councils to accept early payment of rates, Council will accept payment in full of all rates assessed in the current year on or before the due date for the first instalment of the year. Early payment of these rates will attract neither a discount, nor interest on the sum paid.

4. POLICY DETAILS

Paying all specified rates for subsequent financial years

4.1 Conditions and criteria

As long as a Rating Unit is subject to one of the specified rates, the ratepayer may, at any time before the due date for the last instalment of rates payable in that financial year, pay an amount calculated in accordance with this Policy to clear the rating unit's liability for the specified rate for all future years.

The sum to clear the Rating Unit's liability will equal principal outstanding amount (excluding GST) applying to that specified rate, divided by the number of rating units liable for the targeted rate in the financial year (plus GST).

4.2 Liability per unit

Each financial year, the amount of the payment to clear a Rating Unit's liability will be updated to reflect the Council's current interest rate charged in accordance with the relevant Annual Plan/10 Year Plan. A schedule outlining the liability outstanding for each specified rate will be updated annually and adopted as part of the 10 Year Plan/Annual Plan process.

4.3 Payment

Elections to pay specified rates early must be notified verbally or in writing to a Council Finance Officer or the Finance Manager. This will ensure Council can appropriately allocate the payments against the relevant liability. Failure to notify

Council of an early payment of a specified rate will result in the payment being allocated to an appropriate rates account.

The discount offered by electing to make a payment in accordance with this Policy equals the Council's estimate of the cost of interest (plus GST) over the remaining term of the specified rate.

5. ROLES AND RESPONSIBILITIES

| Party/Parties | Roles and Responsibilities |
|--|---|
| Finance Officer | Accept notifications/requests for early repayment of rates on behalf of Council. Calculate and update the schedule of specified rates on an annual basis. |
| Finance Manager, Chief Financial Officer | Accept notifications/requests for early repayment of rates on behalf of Council. Oversee the early payment of specified rates. |

6. ASSOCIATED DOCUMENTS

- Early Payment of Specified Rates - Liability Schedule for the year ending 30 June 2017 (R/17/1/1614)
- Local Government (Rating) Act 2002
- Southland District Council Revenue and Financing Policy.

7. REVISION RECORD

| Date | Version | Revision Description |
|-------------|---------------|----------------------|
| 20 May 2015 | 2015-2025 LTP | r/15/4/7632 |
| | 2018-2028 LTP | r/16/10/17873 |

Draft Health and Safety Plan for 2017/2018

Record No: R/17/5/11030
Author: Janet Ellis, People and Capability Manager
Approved by: Steve Ruru, Chief Executive

Decision Recommendation Information

Purpose

- 1 To seek approval for the draft Health and Safety Governance Framework and draft Health and Safety Plan for 2017/2018 to be presented to Council for formal approval.

Executive Summary

- 2 In February 2017, Council contracted Simpson Grierson to undertake a Health and Safety Gap Analysis. The analysis identified a number of improvement opportunities which will be reflected in a formal Action Plan to be reported to a future meeting of the Committee.
- 3 As part of the improvement recommendations officers have progressed development of a draft Health and Safety Governance Framework and a draft Health and Safety Plan for 2017/18. These are presented to the Committee their endorsement prior to seeking formal approval from Council.
- 4 Southland District Council has an obligation to manage the safety of workers under Health and Safety legislative requirements. The Health and Safety Framework, containing a single policy with clear standard procedures will enable a risk based approach to managing health and safety.
- 5 The Health and Safety Plan details a draft Health and Safety Commitment statement. In addition the plan contains a review of previous performance and objectives and identifies key elements to deliver improvement.

Recommendation

That the Finance and Audit Committee:

- a) **Receives the report titled “Draft Health and Safety Plan for 2017/2018” dated 27 May 2017.**
- b) **Determines that this matter or decision be recognised as not significant in terms of Section 76 of the Local Government Act 2002.**
- c) **Determines that it has complied with the decision-making provisions of the Local Government Act 2002 to the extent necessary in relation to this decision; and in accordance with Section 79 of the Act determines that it does not require further information, further assessment of options or further analysis of costs and benefits or advantages and disadvantages prior to making a decision on this matter.**
- d) **Recommends to Council that it approves the draft Health and Safety Commitment statement that details Southland District Council’s intent and direction.**
- e) **Recommends to Council that it approves the draft Health and Safety Plan for 2017/18 and recommends Council approve the Health and Safety Plan and notes that there will be ongoing financial implications for implementing the plan.**
- f) **Recommends to Council that it approves the Health and Safety Management System Governance Framework.**

Content

Background

Health and Safety Gap Analysis

- 6 In February 2017, Council contracted Simpson Grierson to undertake a Health and Safety Gap Analysis. The analysis included a review of Southland District Councils Health and Safety Management System, discussions with key operational leaders, visits to operational locations and discussions with workers and key contractors. The result of the Gap Analysis was a written report detailing findings and recommendations for improvement. The report was presented to the March 2017 Finance and Audit Committee meeting.
- 7 The Gap Analysis determined that Council had a “developing maturity” in Health and Safety, some processes had been developed and good work had been undertaken in identifying and the managing the key risks. However, there were a number of recommendations made that indicated that our Health and Safety systems were more reactive and that we had significant opportunity to further develop our overall health and safety systems.
- 8 The recommendations made included:
- That the Executive Leadership Team needed to develop a statement of intent for Health and Safety that expressed their ambition and direction in this area
 - The Executive Leadership Team needed to look for opportunities to express their support and leadership of Health and Safety, including site visits and more interaction with key contractors
 - The Executive Leadership Team should consider Health and Safety Leader training to support them and their direct reports in their roles. The training should cover key aspects of health and safety culture development, safety observations and conversations and behavioural safety elements
 - Development of a Health and Safety Plan that details specific improvement initiatives for the following year. It was also recommended that the plan be approved by the Executive and ratified by both Council and the Finance and Audit Committee.
 - Establishment of a health and safety Governance Framework
 - Review current procedural gaps and draft new procedures to ensure a full management system over time
 - Ensure employees are involved in the change process and development of new procedures
 - Create clarity on critical risks and what these are. In addition create control plans that indicate how we control risk and who is responsible, using a ‘bow tie’ methodology
 - Review hazard and risk procedures to create one process for management of risks and the risk registers
 - Develop a reporting process that conveys how Council will report its Health and Safety performance, set targets and who details, who receives this information and when they receive the information
 - Ensure measures include lead and lag indicators and provide a view of actual performance, so that Council can measure its progress.
- 9 Following the March Finance and Audit committee meeting, a plan, including objectives and targets was to be developed and presented.

Health and Safety Commitment Statement

- 10 The Executive Leadership Team undertook Health and Safety Leader training on 16 May 2017. The training covered key aspects of legislation, Health and Safety responsibilities and culture development.
- 11 As part of the training the Leadership Team drafted a Health and Safety Commitment Statement.

***“We are committed to caring for the wellbeing and safety of our people and those who interact with us.*”**

Our goal is for our people to actively think about their own and others safety and wellbeing, so that we deliver safe and effective services to our community and that everyone gets home safe and well.”

- 12 We seek the Finance and Audit Committee feedback on this statement prior to it being finalised as part of the Health and Safety Plan 2017/2018.

Health and Safety Plan 2017/2018

- 13 A Health and Safety Plan for 2017/2018 has been drafted. The plan contains a review of previous performance and objectives and spells out proposed improvement measures and targets. It identifies key elements to deliver improvement and allocates sponsors to ensure momentum is maintained.
- 14 Work needs to be undertaken on resourcing of the plan to ensure not only development of the new procedures but ensure that it is communicated effectively, resourced effectively and implemented throughout the whole of the organisation.
- 15 The plan is the start of fundamental change to ‘how we do things’ to ensure we meet legislative requirements and that people get home safe and healthy. It is important to recognise that that the implementation of this plan and the recommended procedures will lead to increased costs which will need to be reflected in future Annual and Long Term Plans. The extent of these additional costs will become clear as we go through the process of implementing the plan.

Health and Safety Framework

- 16 A Draft Health and Safety Framework is attached for your feedback and sign off.
- 17 The document forms the overarching governance document that provides the context, structure and overview of the unified health and safety management system utilised across the organisation.
- 18 The purpose of the Framework is to document how Health and Safety will be managed throughout Council and its operations; provide information on the hierarchy of documentation to be used, define document types and define the document control process.
- 19 To ensure that the Finance and Audit Committee and Council have assurance that the policy and procedures are being implemented Audit and Assurance Procedures will be drafted as part of the framework. The Audit and Assurance Procedures will outline how Southland District Council will evaluate the implementation of its policies and identify ongoing improvement opportunities.
- 20 Officers are seeking the Committees feedback on the Health and Safety Framework.

Factors to Consider

Legal and Statutory Requirements

- 21 Council has an obligation to manage the safety of workers under Health and Safety legislative requirements in New Zealand.
- 22 The Health and Safety Framework, containing a single policy with clear standard procedures will enable a risk based approach to managing health and safety based within its undertakings.
- 23 The Health and Safety at Work Act (2015) provides guidance that if cost is the reason for not implementing a safety system, the provision of safety equipment or the changing of a process, to enable work to be done safely, then that cost must be something deemed to be grossly disproportionate to the risk being managed.
- 24 There is no further guidance in the Act on what grossly disproportionate means however it does give us an indication that we need to be very clear if we limit taking action or providing equipment or implementing improvements based on costs that there is significant risk to breaching the Act.

Costs and Funding

- 25 Indicative costs from Simpson Grierson for the development of the procedures and the critical risks and bowties is \$15,000.
- 26 Once these procedures are developed it is expected that there will be ongoing additional costs to meet the recommendations and the implementation requirements of the procedures. This could include additional equipment needed, education costs, health and safety system costs and recruitment of additional resources to ensure compliance with the Health and Safety framework and health and safety legislation. Examples of additional costs include \$15,000 per annum for Audit and Assurance requirements; \$10,000 per annum for a Health and Safety system; \$10,000 for education and training on health and safety.
- 27 It is also inevitable that additional costs with, for example, mitigating some of the risks will be incurred once the risks are clearly defined and control plans are put in place. For example the cost of GPS in vehicles to ensure the safety of our workers is estimated to be an additional \$20,000 per annum and the cost of security cameras in our area offices is an estimated \$10,000.
- 28 The above costs are indicative only to give the Finance and Audit Committee an understanding of some of the costs associated with implementing the Plan and the Framework. Costs will need to be budgeted as part of the Long Term Plan and Annual Plan process.

Policy Implications

- 29 The current Health and Safety Policy will need to be amended following finalisation of the Plan.

Analysis

Options Considered

- 30 The options considered are to recommend to Council for approval the Governance Framework and Health and Safety Plan as presented (Option 1), recommend them subject to some minor amendments (Option 2) or Do Nothing (Option 3).

Analysis of Options

Option 1 – Agree to the draft Health and Safety Framework and Plan for 2017/18

| <i>Advantages</i> | <i>Disadvantages</i> |
|--|--|
| <ul style="list-style-type: none"> • Robust framework • Improvement of Health and Safety Culture • Illustration that Council and ELT are committed to caring for the wellbeing and safety of our people • Decline in the number of injuries • Meet legislative requirements | <ul style="list-style-type: none"> • Financial implications |

Option 2 – Modifies the Health and Safety Framework and Plan

| <i>Advantages</i> | <i>Disadvantages</i> |
|---|---|
| <ul style="list-style-type: none"> • Save some initial costs in the short term | <ul style="list-style-type: none"> • Inconsistency in procedures • No clear guidelines • Health, safety and wellbeing of our people in jeopardy • May not be consistent with legislative obligations. |

Option 3 – Do nothing

| <i>Advantages</i> | <i>Disadvantages</i> |
|---|--|
| <ul style="list-style-type: none"> • Avoids short term cost implications | <ul style="list-style-type: none"> • Inconsistency in procedures • No clear guidelines • Health, safety and wellbeing of our people in jeopardy • Not consistent with legislative obligations. |

Assessment of Significance

- 31 The matter being considered is of an administrative matter and hence is not considered to be significant in terms of section 76 of the Local Government Act 2002.

Recommended Option

- 32 Agrees to recommend to Council adoption of the draft Health and Safety Governance Framework and Health and Safety Plan for 2017/18.

Next Steps

- 33 Seek final approval of the plan from Council and begin working on the procedures and the implementation plan.

Attachments

- A Health and Safety Plan 2017-2018 [↓](#)
B Southland District Council Health and Safety Management System Governance Framework [↓](#)

Our H&S Commitment - developed by the Leadership Team 16 May 2017

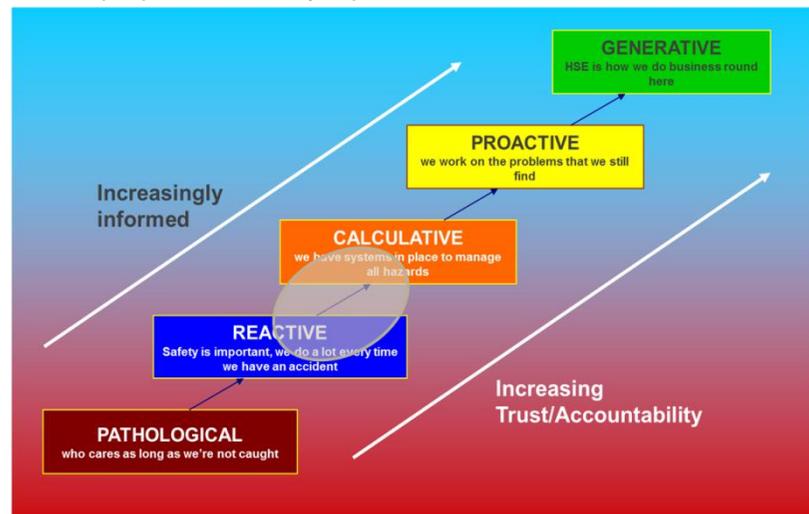
We are committed to caring for the wellbeing and safety of our people and those who interact with us.

Our goal is for our people to be bold and actively think about their own and others safety and wellbeing, so that we deliver safe and effective services to our community and that everyone gets home safe and well.

Current State

We feel we have made good progress on H&S over the last few years and there are definite signs that our people believe we take accountability for their safety and want them to go home safe and well at the end of the day.

We have reviewed our progress using an external organisation and have used this to refocus our intentions and develop this plan to continue our H&S Journey. While we do not experience a large number of significant injuries, we know our people are managing and working with risk every day that has potential to cause a significant injury. Our aim is to ensure we manage and control these risks and work with our people to continually improve and learn.



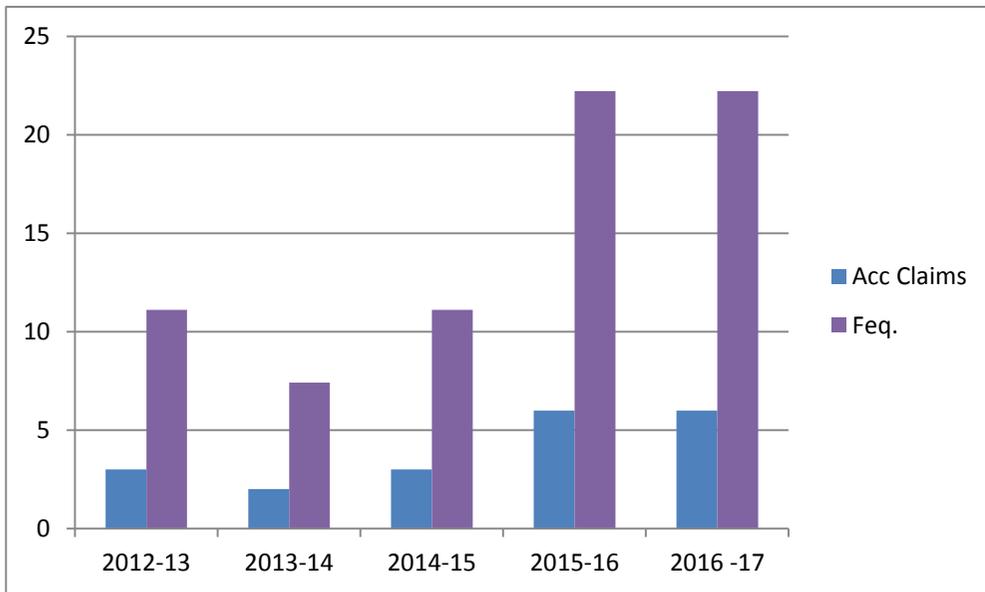
As an Executive Leadership Team we have discussed our current culture in H&S against the Hearts and Minds culture ladder developed by Hudson. The diagram below shows what our belief in our current organisational culture. To move up this ladder towards a more PROACTIVE culture we need to have a plan that will deliver a different focus on H&S. We have developed this plan, as a way to ensure we measure and progress our H&S journey.

The table below shows our current injury rates since 2012. This is based on the hours worked by our 135 FTE workforce and the numbers of injuries come from our ACC data. While most of the injuries recorded here are minor in nature, we accept this doesn't guarantee a serious injury cannot occur at any time. We can also see an increase in the number of work injuries in the last two years, with 2016-17 not yet completed. Contemporary organisations use a less than 5 frequency rate as a benchmark target.

Action Plan

As part of our commitment as a Leadership Team we will co-sponsor a key activity within the H&S plan, this sponsorship commitment is to supporting the roll-out of the initiative or objective and keep each other and our teams honest in undertaking the objectives within SDC. The focus areas were identified at the Executive Leadership Team H&S Workshop on the 16 May 2017.

| Key Focus Areas for H&S | Steps to complete | Sponsor | Complete by date |
|--|--|---------|-------------------------|
| Complete implementation of H&S Framework In February Terry Johnson from Simpson Grierson completed a review of our current H&S processes and provided recommendations. Terry has since helped us develop a framework and governance process for H&S, this will include the development of key procedures and review of some current process to ensure we have a robust and clearly documented H&S framework to move forward with. | Drafting of procedures, including consultation with workers. | SR | August 2017 |
| | Develop education on our key H&S processes and ensure our people are trained in what we are doing. | | Nov 2017 |
| | New framework implemented. | | Dec 2017 |
| Critical Risk Prioritise the development of the Risk and Hazard Management Procedure above, and progress work on critical risk already underway. Educate and train our people on risk and hazard management. Prioritise Critical Risks and | Development of Risk and Hazard procedure, including prioritisation of critical risk. | IM | July 2017 |
| | Development of critical risk control plans (bowties) and approval from ELT sponsor. | | August 2017 – June 2018 |



Currently, we are limited in the information we capture for H&S, and there is inconsistency with our definitions and reporting. We will begin to capture more, including our contractors, with a focus on three levels of incident information. These are Serious Injuries – those requiring hospital admittance and treatment (and would be notifiable to Worksafe), ACC Claims - all work injuries with medical treatment accepted as ACC claims, and near-miss and first aid level incidents. We will begin to collate this information using a frequency rate to indicate our performance.

We will continue to track and use incident information along with other measures identified to track our progress.

| | | | |
|---|--|----|---------------------|
| allocate resources based on the priorities. Complete the development of control plans, and assessment of effectiveness of the controls for the risks. On-going monitoring and management of critical risks seen as part of the audit and assurance process. | Assess the effectiveness of the controls for each of the control plans and create corrective actions for any deemed not effective. | BH | Dec 2018 |
| | Monitor closing out of corrective actions in Monthly reporting. | | August 2017 onwards |
| <u>H&S Participation an HSC Committee Review</u> Consider current arrangements for participation and ensure that the Leadership and Participation Procedure reflects our HS Policy intentions. Review the role of the H&S Committee, including the make-up of the Committee and the overall consultation and participation arrangements for SDC. Rewrite the terms of reference for the HSC and move the focus of the HSC towards more proactive advocacy of H&S. | Draft procedure and undertake consultation. | BH | Aug 2017 |
| | Review terms of reference with HSC | | Aug 2017 |
| | Transition and monitor progress. | | From Oct 2017. |
| <u>Incident Management</u> Escalation process for ensuring | Draft procedure and undertake consultation. | JE | June 2017 |

| | | | | |
|--|--|---|-----------|--|
| | <p>notification of events is clear and occurs. Define what level of investigation is required determined by the potential of the event, ensuring all have corrective actions and these are monitored to completion.</p> <p>Ensure this process is an important input into our monitoring and measuring and our audit and assurance. It provides our lag measures and opportunity to improve our systems.</p> | <p>Educate our people and train resources (as required).</p> <p>Implement new processes.</p> | | <p>Sep 2017</p> |
| | <p>Measuring & Monitoring</p> <p>Seek understanding of elected representatives' requirements for information that supports their due diligence obligations.</p> <p>Develop consistent and accurate reporting processes that measure progress and enable future decision making on H&S initiatives.</p> | <p>Define lead and lag measures that enable the delivery of our H&S objectives, and demonstrate progress against these.</p> <p>Draft procedure and undertake consultation.</p> <p>Educate our people and implement.</p> | <p>RC</p> | <p>Aug 2017</p> <p>Sept 2017</p> <p>Dec 2017</p> |

Health and Safety Management System Governance

| | | | |
|------------------------------------|----------|---------------------------------------|----------|
| Document Name and Number: | | HSMS Governance – r/17/5/10807 | |
| Document Owner and Approver | | Manager People and Capability | |
| Original Issue Date: | May 2017 | Date Issued: | May 2017 |
| Version No. | One | Review Date: | May 2019 |

Procedure Owner

Group General Counsel & Company Secretary

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1. Background and Purpose

This document forms the overarching governance document which provides the context, structure and overview of the unified Health and Safety Management System (HSMS) utilised across Southland District Council (SDC).

The purpose of this unified HSMS is to:

- Set out the Health and Safety (H&S) framework for SDC and document how H&S will be consistently managed throughout Council and its operations;
- Provide information on the hierarchy of documentation to be used and define the document types;
- Determine and document the numbering system used within the unified HSMS; and
- Define the document control process.

The above framework ensures SDC has a system that is unified, robust, meets organisational needs, and supports the goal of creating an inclusive business-wide safety culture.

2. Scope

This document applies to all businesses and subsidiaries, which collectively form SDC.

3. Governance Process

3.1 Overview

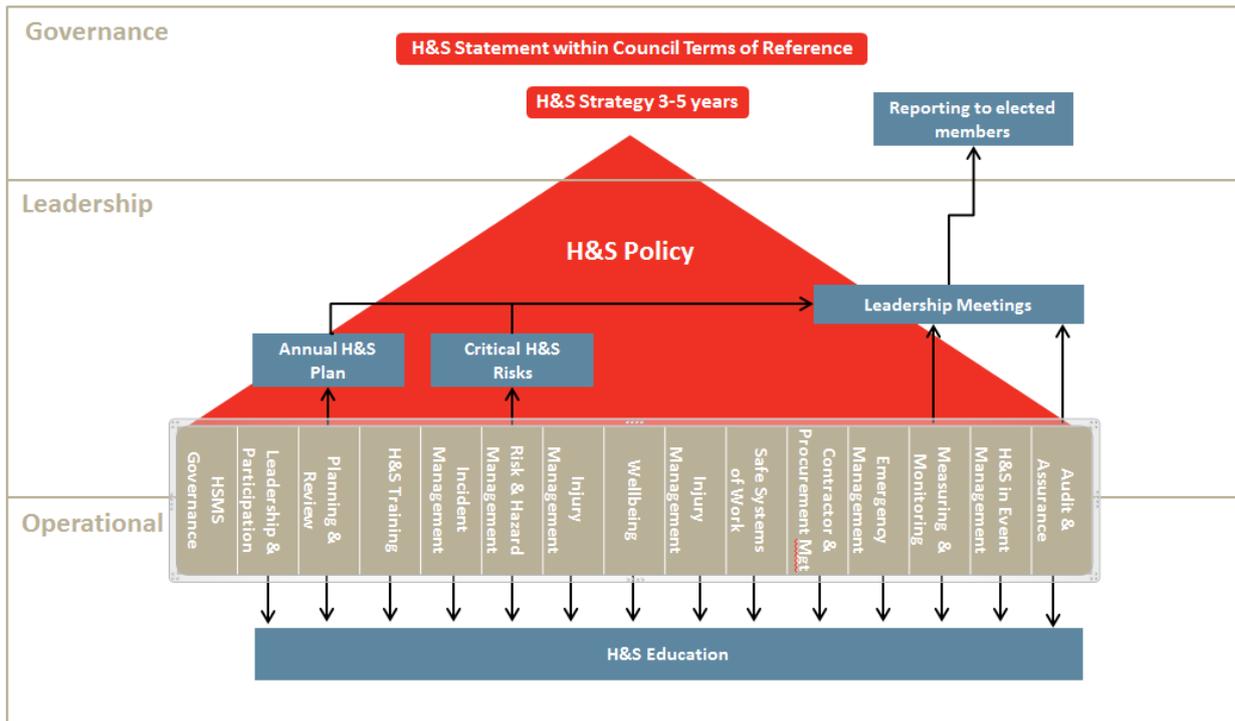
SDC is a territorial authority as defined by the Local Government Act (xxxx).

SDC has undertaken to manage the health and safety of workers and others under H&S safety legislative requirements in New Zealand, and has determined that a HSMS framework, containing a single Policy with clear standard procedures, will enable a risk based approach to managing H&S based within its undertakings.

This document sets out the governance process and the expectations for all SDC businesses.

3.2 Document Hierarchy

The model below defines the structure of the HSMS Framework within SDC and the expected minimum documentation associated with H&S.



3.3 H&S Policy

One H&S Policy will exist for SDC and this will be developed in consultation with our workers and their representatives. The H&S Policy will be approved by Council. The Chief Executive will sign the Policy.

3.4 SDC H&S Procedure

Procedures will be written to ensure SDC clearly documents what is expected in order to manage the different elements of H&S. The procedures will be approved by the Chief Executive. Each procedure will contain the following sections:

1. Background and Purpose.
2. Scope.
3. Procedure.
4. Responsibilities.
5. Other information.

The table below calls out the procedures to be contained within the SDC HSMS and describes them below:

| Title | Description of Procedure. |
|---|--|
| HS01 HSMS Governance | Our overarching document that sets out the intent of the HSMS and how the documents which collectively create the HSMS are designed to be used. It includes any approval process and document control requirements. |
| HS02 Leadership and Participation in H&S | This procedure outlines how our leaders and people will be involved in H&S at SDC. It will provide the framework for our H&S Committee to work within and call out our processes for interacting with our contractors and their workers. |

| Title | Description of Procedure. |
|---|--|
| HS03 Planning and Review | This procedure supports the Identification of key H&S objectives, goals and targets. It sets out how methodical planning will be used to deliver these objectives. It includes regular reviews and supports keeping the H&S Plan alive and on track. |
| HS04 H&S Training | <p>This Procedure outlines how the organisation will determine what training is required to support H&S and the organisations objectives. Training requirements will be based on the risks associated with the work undertaken by SDC and its workers, and include training required by regulation such as first aid training requirements, training requirements for H&S Representatives etc.</p> <p>This procedure will also call out the requirement for Elected Members and Leadership to be kept informed and up to date with H&S developments internally and externally to SDC.</p> |
| HS05 Incident Management | <p>This Procedure enables the organisation to record how it reports and investigates events, including the escalation of events, and process to determine causation. It includes the need to ensure any appropriate preventative measures and associated corrective actions are identified as part of investigations.</p> <p>It includes how to meet statutory requirements in relation to notifiable events and participation with regulatory bodies in such situations.</p> <p>It also contains how corrective actions will be monitored to ensure completion.</p> |
| HS06 Risk and Hazard Management | <p>This Procedure outlines how the organisation will identify and manage its most critical risks, including the development of control plans, and assessment against the effectiveness of these controls.</p> <p>Hazards will managed through local hazard registers, when exposure to a hazard cannot be eliminated in a timely manner.</p> |
| HS07 Injury Management | This Procedure outlines how the organisation supports and cares for its people to recover and rehabilitate from work and non-work injuries and return to their pre-injury roles. |
| HS08 Wellbeing | <p>This procedure will provide the organisation with a proactive approach to managing the wellbeing of our people. It will determine what health related risks are present in the work undertaken by SDC. It will also ensure where risk assessment determines it, and actual exposure is present, what on-going health monitoring is required.</p> <p>The wellbeing procedure will also be used to support positive outcomes from other potential health risk issues such as work pressure, mental health or fatigue, and acknowledges that these can be exacerbated by other influences such as factors such physical health, relationship issues or financial uncertainty.</p> |
| HS09 Safe Systems of work | The purpose of this Procedure is to specifically outline how key activities which have a significant risk are to be controlled. Typically this Procedure will include arrangements for access to sensitive/restricted areas, issuing of permits, management of critical risks such as Work at Height, Electrical Safety and Confined Spaces. |
| HS10 Contractor and Procurement Management | <p>This Procedure will outline arrangements in place to ensure that each PCBU can fulfil its individual and overlapping duties. It can include specific pre-qualification processes, tendering information and selection of competent providers.</p> <p>It should also include the processes for ensuring that goods and services procured for use within SDC are suitable for purpose and are fit for purpose. It should call out the need for the design and manufacturing of items for supply to SDC (eg. playground equipment or infrastructure) to meet any necessary design regulations and include H&S Risk Assessments as part of the design requirements in SDC bid documents.</p> |
| HS11 Emergency Management | <p>This Procedure does not replace Business Continuity Arrangements but often aligns with and supports those arrangements that are already in place. It identifies relevant emergency situations which the organisation and its people may face and outlines how these are best managed should they occur and are periodically tested to ensure, should the need arise, the arrangements will be effective on the day.</p> <p>The treatment of visitors within the organisation (eg. those present on site for the purposes of visiting SDC locations other than completing work) will be covered by this procedure to ensure emergency arrangements are in place to support visitors in an emergency situation.</p> |

| Title | Description of Procedure. |
|----------------------------------|--|
| HS12 Measuring and Monitoring | The process for periodic monitoring of the effectiveness of the agreed HSMS and achievement of targets and goals is contained within this Procedure. In addition, it includes how that information will be disseminated (upwards and downwards) in the organisation to inform on progress or any roadblocks. This particular Procedure is useful for evidencing due diligence obligations. |
| HS13 H&S in Event Management | This procedure will cover the H&S process SDC will use when managing a public event or when members of the public are in charge of our facilities or council controlled locations (including halls, reserves and other amenities). |
| HS14 Audit and Assurance | An effective HSMS is only beneficial if it works in practice. This Procedure outlines how the organisation will undertake its own internal evaluation of the implementation of those processes and identify ways to improve or focus on any gaps. |

These procedures have been determined as necessary to ensure the safe and healthy operations of SDC locations and operational activities as they currently exist. Further procedures may be added in the future should the risk profile of SDC change.

Prior to publishing H&S Procedures, contents will be discussed and feedback sought, through the use of the SDC H&S Committee and Contractors Engagement Processes.

3.5 Numbering System

Each Procedure will have its own document reference number, which will correspond to the relevant supporting documents using a sub-numbering system. For example, H&S Governance Procedure will be the first document in the System and will be called HS01, any documents used to support this procedure will have the suffix after them, the first being HS01-01 with the suffix increasing each time a sub-document is added.

3.6 Document Control

Each document will have a document control table embedded in the footer of the document prior to publication. This footer table will be as follows:

| | | | |
|------------------------------------|----------|------------------------------------|----------|
| Document Name & Number: | | Management of Change - HS04 | |
| Document Owner and Approver | | Manager People and Capability | |
| Original Issue Date: | May 2017 | Date Issued: | May 2017 |
| Version No. | One | Review Date: | May 2019 |

3.7 Approval Level

For SDC issued documentation, the document owner and approver will be Manager People and Capability

3.8 Document Review Periods

SDC will review its H&S Procedures every two years, and other key H&S documents such as risk registers or risk control plans must also be reviewed every two years at a minimum. The review will occur prior to the completion of the month shown in the review date box.

Reviews may also be undertaken at any time should the following occur:

- A change to the SDC structure, business model or general undertaking that necessitates a review;

- A significant event occurs that determines a change to a standard or procedure is necessary;
- Legislation or regulation change occurs necessitating review, and where necessary, changes to current HSMS contents;
- At the request of the Council or Chief Executive; or
- Where an audit or self-Assurance process has determined that a change is required and this change is agreed to by the Manager People and Capability and Chief Executive.

4. Responsibilities

The following roles have an active part to play in ensuring effective governance of the agreed SDC HSMS Framework:

Chief Executive

- Ensures SDC maintains a HSMS that is able to provide assurance to Council that the system is resourced, robust, used, and delivers the intent of the SDC H&S Policy.
- Ensures the Executive Leadership Team have personal H&S objectives each year which support implementation of the agreed HSMS and H&S Plan.
- Signs and approves the H&S Policy.

Manager People and Capability

- Approves the H&S Procedures and ensures resourcing is available to support the HSMS Framework, its implementation and ongoing management.

Executive Leadership Team

- Are accountable for ensuring that appropriately documented procedures specified in this governance process are implemented and used across their area of responsibility.
- Be aware of the contents of the HSMS and actively encourage its use.

Operational Leaders

- Actively encourage implementation of all approved procedures, monitor compliance, and if necessary, address any areas of non-conformance as appropriate.
- Holds to account those with responsibility for requirements within the agreed procedures.
- Participate in the review of, and where relevant, improvements to the contents of the local procedures to ensure they remain relevant and easily understood.

Workers under SDC's influence and/or control

- Comply with the H&S Policy, Standards and procedures of SDC.
- When requested, actively participate in the review and creation of local procedures, guidelines and checklists.

5. Other information

- SDC H&S Policy
- H&S Definitions
- Add other links as necessary.

Financial Report for the month ended 30 April 2017

Record No: R/17/5/10630
Author: Robert Tweedie, Management Accountant
Approved by: Anne Robson, Chief Financial Officer

Decision Recommendation Information

Background

1. This report outlines the financial results for the ten months to 30 April 2017 or 83% of the financial year.
2. The Monthly and YTD Actual results are compared to the Full Year Budget (Projection) in the attached Summary Monthly Financial Report. The projection values include any 2015/2016 carried forward items approved by Council in August 2016 and any changes as a result of October 2016 forecasting that Council approved. The 2016/2017 Annual Plan budget is shown in the Monthly Financial Summary Report as the Full Year Budget (Budget).
3. The forecast changes approved by Council in its May meeting will be reflected in the May Financial Report.

Overview

4. The Summary Monthly Financial Report consolidates the business units within each of the key areas of the Executive Leadership Team (ELT) responsibility. The following commentary focuses on the year to date (YTD) results excluding GST.
5. The Detailed Monthly Financial Report includes more detailed explanations and commentary on variances by the Executive Leadership Team. Commentary generally focuses on the year to date (YTD) results and, where specified, monthly results.
6. In the Council Summary and Detailed Reports, the values in the columns for:
 - The Monthly Budget is phased, where appropriate, and includes forecasting.
 - The YTD Budget is the Annual Plan, carry forwards and forecasting year to date.
 - The Full Year Budget is the LTP budget for the year.
 - The Full Year Projection is the forecasted year end result
7. Phasing of budgets occurs in the first 2 months of the financial year, at forecasting and when one-off costs have actually occurred. This should reduce the number of variance explanations due to timing.
8. Where phasing of budgets has not occurred, one twelfth of annual budgeted cost is used to calculate the monthly budget.
9. The first round of forecasting for the first four months has been adopted. The revised budgets are included in the monthly, year to date budgets and projection.
10. Council staff will continue to refine the format of this report to enhance the financial information reported. We welcome any feedback or suggestions on further improvements that could be made to this report.

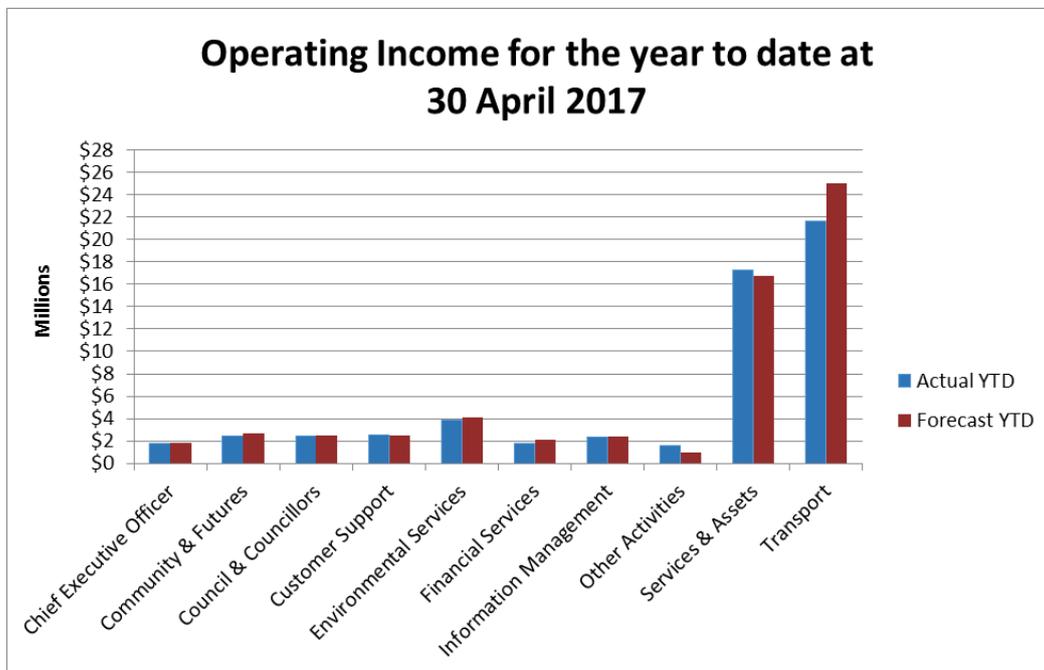
11. The Council Summary Report (actuals vs *phased and forecast* budget) year to date are as follows:

| YEAR TO DATE | Actual | Budget | Variance | Act to Bgt |
|--------------------------------|----------|----------|----------|------------|
| INCOME | \$ 57.7M | \$ 60.7M | (\$3.0M) | ↓ (5%) |
| OPERATING EXPENDITURE | \$ 41.1M | \$ 42.9M | \$ 1.8M | ↓ (4%) |
| NET SURPLUS / (DEFICIT) | \$ 16.6M | \$ 17.8M | (\$1.2M) | ↓ (7%) |

| YEAR TO DATE | Actual | Budget | Variance | Act to Bgt |
|----------------------------|----------|----------|----------|------------|
| CAPITAL EXPENDITURE | \$ 14.0M | \$ 23.9M | \$9.9M | ↓ (41%) |

Income

12. Operating Income is \$3.0M (5%) under budget year to date (\$57.7M actual vs \$60.7M budget).



13. Other Activities is over budget due to:

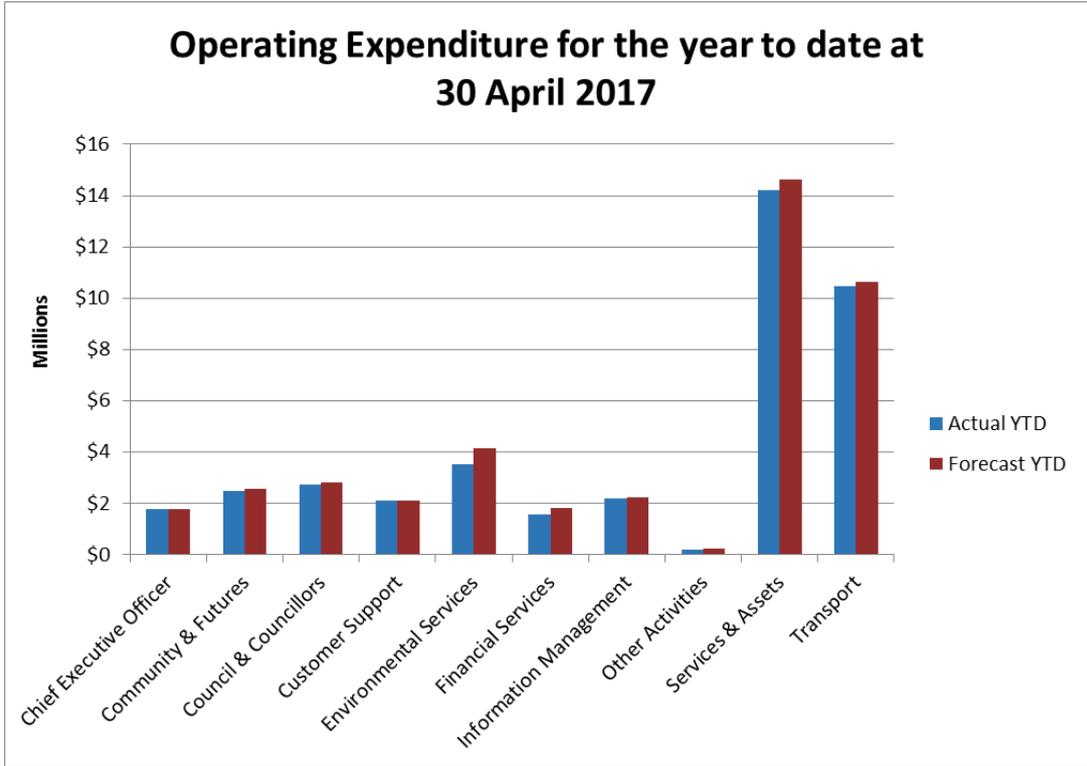
- A grant of \$105K was returned from the Edendale-Wyndham Community board for the Edendale Hall project which is now no longer proceeding. This monies will be returned to the specific Fonterra Contributions Reserve. The \$105k grant was from two financial contributions received from Fonterra, as it is now named. Both consents spoke generally about the use of the monies being in Edendale, its environs or the district generally. The Community and Policy committee will have the discretion as to where the funds are granted in line with the District Plan and the consent.
- External interest income on operating investments is higher than budgeted. Annual budget assumptions were made based on the level of cash reserves of projected capital works that were going to be undertaken. Cash reserves which would have been applied to these projects have resulted in higher cash reserves than budgeted earning additional interest income.

- 14. Services and Assets are over budget.
 - To date, forestry sales are ahead of projection by \$506K. Dipton sales are forecast to be ahead of target by year end due to better sale prices and greater than expected volumes. Additionally the creation of some access tracks have also resulted in additional harvesting occurring.
 - Community Engineers and Engineering Consultants business units are internally funded and under budget year to date. The costs are lower for both these business units against budget but forecast to be on target by the end of the year.

- 15. Transport and Roothing income is below budget year to date. This year’s capital works programme has commenced but is still behind the planned schedule which directly affects the level of income from NZTA. The work programme and NZTA funding is still planned to be on budget by year end. In order to fully utilise the budget the Strategic Roothing team have instructed SDC’s Alliance partners to pull forward some unsealed road metalling and complete additional unsealed road drainage renewals. These works have been confirmed by the Alliance partners and should be completed by 30th June, weather dependant.

Operating Expenditure

- 16. Operating Expenditure is \$1.8M (4%) under budget for the year to date (\$41.1M actual vs \$42.9M budget).



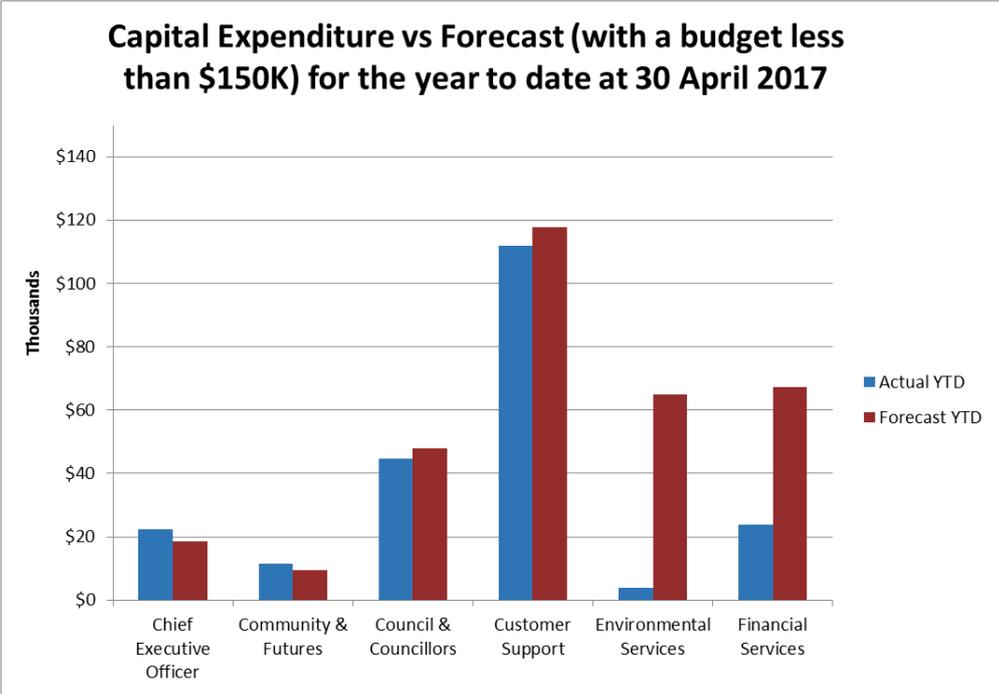
- 17. Environmental Services is below budget. This is due to reduced staffing levels particularly in resource consents and planning and less costs being incurred in relation to the district plan than budgeted. It is expected that this area will continue to be under budget at year end.

- 18. Overall, Financial Services is \$236K below budget year to date. This is principally due to lower insurance and valuation roll costs as well as savings due to staff vacancies. It is expected that the business unit will continue to be under budget at year end.

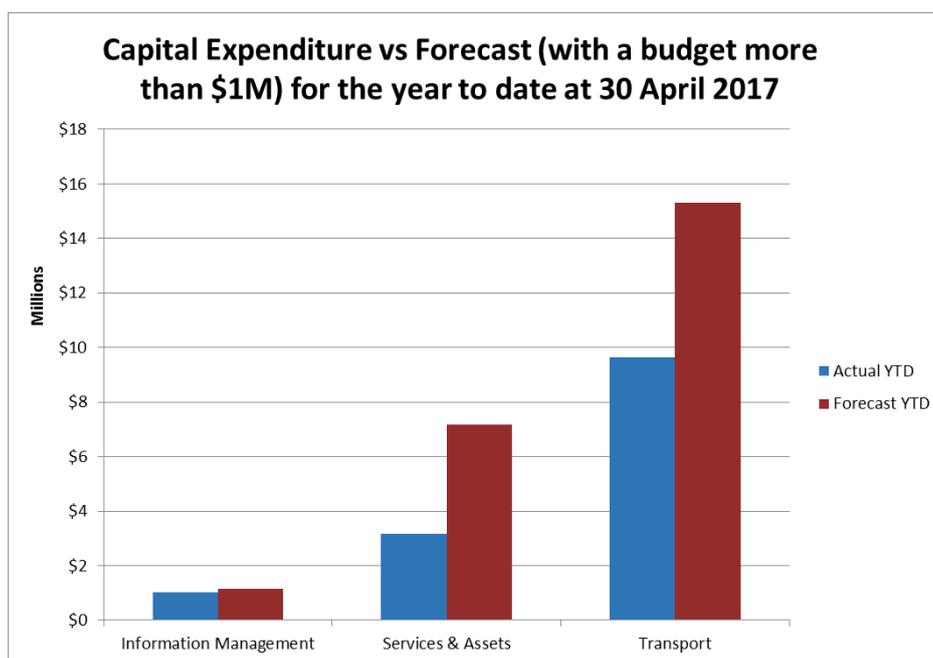
- 19. Services and Assets are under budget by \$422K. Forestry expenditure is \$366K below budget mainly due to harvesting costs. Harvesting costs are expected to be on target by year end.
- 20. Transport and Roding operational maintenance costs are slightly behind budget but are expected to be in line with budget by year end.

Capital Expenditure

- 21. Capital Expenditure is \$9.9M (41%) under budget year to date (\$14.0M actual v \$23.9M budget).



- 22. Community and Futures capital expenditure relates to office furniture purchased in the Policy and Governance areas. This will be funded from savings in the business unit or the district operating reserves.
- 23. Due to a current review of the vehicle policy, vehicles within a number of areas have not yet been replaced. The capital budget above for Environmental services is for vehicle replacements.
- 24. Additionally, Financial Services has not yet replaced the Council pool. The office upgrade commenced in April and was completed in May. It will be within the forecast budget.



25. Capital expenditure for Services and Assets is overall \$4M below budget. Projects in Water (\$2.1M behind budget) and Sewerage (\$1.3M behind budget) are still in the design and tender phase and yet to commence. Work on the Winton Water Main replacement has begun and will continue through until June. At this stage it is anticipated that the Riversdale Sewerage Treatment upgrade will not be undertaken. The majority of the total Annual plan cost has been removed as part of the last forecasting round, some funds have been retained from the consent process. Water and Waste projects to the value of \$1.4M (including Riversdale and funds relating to Te Anau) have been moved to 2017/2018 as part of the submission process to the 2017/2018 Annual Plan.
26. Overall roading capital expenditure is \$5.7M less than budgeted for the year to date due to weather conditions. The resealing programme and tendered projects have commenced and are expected to meet the target by year end.

Balance Sheet

27. Council's financial position as at 30 April 2017 is detailed below and is for the activities of Council only. The balance sheet as at 30 June 2016 represents the audited balance sheet for activities of Council and includes SIESA and Venture Southland.
28. Current Assets (Other Financial Assets) at 30 June 2016 includes cash reserves in Venture and SIESA when the year-end accounts were consolidated. An additional amount of \$10M in term deposits was disclosed under Other Financial Assets. This is in line with reporting standards for deposits with a term of 90 days or more at year end.
29. At 30 March 2017, Council had \$11M invested in three term deposits ranging from three to seven month maturities as follows:

| Bank | Amount | Interest Rate | Date Invested | Maturity Date |
|------|--------------|---------------|---------------|---------------|
| ANZ | \$ 3,000,000 | 3.30% | 1-Mar-17 | 19-Sep-17 |
| ASB | \$ 5,000,000 | 3.50% | 30-Nov-16 | 30-May-17 |
| BNZ | \$ 3,000,000 | 2.85% | 28-Feb-17 | 18-May-17 |

30. Funds on call:

| Balance at 30 April 2017 | Bank | Interest Rate |
|-----------------------------|------|---------------|
| \$ 2,049,726 | BNZ | 0.30% |

31. The movement in Property, Plant and Equipment is the budgeted depreciation for the year to date.
32. The reduction in internal loans are the repayment of loans. These are loans to the local communities raised in June each year.
33. The increase in Non-Current Assets (Intangible Assets) is the acquisition costs for the Council's digitisation software.

STATEMENT OF FINANCIAL POSITION
31 March 2017

| | Actual 31-Mar-17 | Actual 30-Jun-16 |
|---|-----------------------------|-----------------------------|
| Equity | | |
| Retained Earnings | 722,936,292 | 727,868,332 |
| Asset Revaluation Reserves | 628,114,960 | 628,114,960 |
| Other Reserves | 30,676,903 | 31,174,431 |
| Fair Value Reserve | 1,983,063 | 1,983,063 |
| | <u>1,383,711,218</u> | <u>1,389,140,785</u> |
| Represented by: | | |
| Current Assets | | |
| Cash & Cash Equivalents | 16,870,604 | 5,714,785 |
| Trade and Other Receivables | 5,806,392 | 5,854,023 |
| Inventories | 85,148 | 98,991 |
| Other Financial Assets | 419,274 | 12,511,753 |
| | <u>23,181,419</u> | <u>24,179,551</u> |
| Non-Current Assets | | |
| Property, Plant and Equipment | 1,351,919,286 | 1,358,059,613 |
| Intangible Assets | 2,782,703 | 2,177,601 |
| Forestry Assets | 12,951,000 | 12,951,000 |
| Internal Loans | 18,119,857 | 19,992,918 |
| Work in Progress | 2,849,290 | 2,779,101 |
| Other Financial Assets | 3,647 | 3,956 |
| | <u>1,388,625,783</u> | <u>1,395,964,188</u> |
| TOTAL ASSETS | 1,411,807,202 | 1,420,143,740 |
| Current Liabilities | | |
| Trade and Other Payables | 5,914,729 | 6,696,612 |
| Contract Retentions and Deposits | 441,795 | 449,416 |
| Employee Benefit Liabilities | 1,147,191 | 1,341,157 |
| Development and Financial Contributions | 2,286,209 | 2,285,557 |
| Borrowings | 0 | 51,092 |
| Landfill Contingency | 14,000 | 14,000 |
| | <u>9,803,924</u> | <u>10,837,833</u> |
| Non-Current Liabilities | | |
| Employment Benefit Liabilities | 147,051 | 147,051 |
| Provision for Decommissioning | 25,151 | 25,151 |
| Internal Loans - Liability | 18,119,858 | 19,992,919 |
| | <u>18,292,060</u> | <u>20,165,121</u> |
| TOTAL LIABILITIES | 28,095,984 | 31,002,954 |
| NET ASSETS | <u>1,383,711,218</u> | <u>1,389,140,785</u> |

Recommendation

That the Finance and Audit Committee:

- a) Receives the report titled “Financial Report for the month ended 30 April 2017” dated 29 May 2017.

Attachments

There are no attachments for this report.

Digitisation Project Update

Record No: R/17/5/9446
Author: Gillian Cavanagh, Team Leader - Knowledge Management
Approved by: Damon Campbell, Chief Information Officer

Decision Recommendation Information

Introduction

- 1 The purpose of this report is to provide an update to the Finance and Audit Committee on the status of the Property File Digitisation Project.
- 2 The figures outlined in the table below are for the months of January to April which provides the committee an interim report while staff finalise details of the ongoing reporting requirements with Power Business Services.

January to April Reporting

- 3 The following table provides details of files prepared, average A4 pages and large format (LF) pages scanned and average metadata/pdf compilation for the months of January to April.

| | File Preparation | Average A4 Scanned | Average LF Scanned | Average Metadata/PDF |
|-----------------|------------------|--------------------|--------------------|----------------------|
| January | 1,687 | 231 | 4.5 | 20 |
| February | 1,613 | 220 | 5.3 | 20 |
| March | 2,161 | 217 | 5.4 | 19 |
| April | 1,910 | 147 | 2.5 | 12 |
| Average | 1,843 | 203 | 4.4 | 18 |

- 4 These details have been extracted from the vendor invoices for this particular report. The numbers on the invoices are manually entered by the vendor and we are working with them to generate reporting in a way that enables us to confirm these each month.
- 5 This new reporting will be used to update the Chief Executive and Chair of the Finance and Audit Committee each month with a formal update report being presented to each Finance and Audit committee meeting for the remainder of 2017 whilst this project is running.
- 6 Council officers at the time of writing this report were finalising the last large shipment to PBS. This last shipment will be approximately 5,000 property files and will equate to approximately 95% of Council's property files being sent away. The remaining 5% are actively being used by staff and will be shipped as part of the final wash-up.
- 7 Council will send the Fonterra collection as a separate shipment so that it will be processed as one complete set. This will be completed in the new financial year.
- 8 Kiosk devices will progressively be setup to allow members of the public to view the digital property files from Council offices. With this work progressing this information will also be made available via the Council website.
- 9 The project is progressing well and is on track with the project being completed by December 2017.
- 10 The current fixed price is based on 274.8 A4 pages and 6.91 large format pages and 24,000 files. By the end of June we will have confirmation of the final number of files that will be processed as part of the overall project.

Finance and Audit Committee

7 June 2017

Item 8.2

- 11 After the June processing period the numbers received will be reviewed in conjunction with the vendor to discuss in particular the average pages numbers and the impact on the overall costs for the remaining files.
- 12 At the end of April the updated forecast for the entire project is \$1.987m, compared to the approved budget of \$2.0m.

Recommendation

That the Finance and Audit Committee:

- a) Receives the report titled “Digitisation Project Update” dated 27 May 2017.

Attachments

There are no attachments for this report.

Audit Engagement Letters

Record No: R/17/5/9727
Author: Jacobus Meyer, Financial Accountant
Approved by: Anne Robson, Chief Financial Officer

Decision Recommendation Information

Purpose

- 1 To seek formal approval for the proposed audit arrangements for the three years to 30 June 2019, an audit engagement letter for three years to 30 June 2019 and an audit arrangements letter for the Annual Report for the year audit to 30 June 2017.
- 2 These documents are required to be approved by Council.

Executive Summary

- 3 Audit New Zealand requires Council to counter-sign the proposal for them to conduct the attest audit on behalf of the Auditor-General for the 2017, 2018 and 2019 years. This letter will then form the basis for a recommendation to the Auditor-General on the audit fee that should be set.
- 4 Audit New Zealand requires Council to sign the audit engagement letter sent on behalf of the Auditor-General, who is the auditor of all “public entities”, including Southland District Council under section 14 of the Public Audit Act 2001.
- 5 Audit New Zealand requires Council to confirm the audit arrangements for the 2016/2017 Annual Report of Council.
- 6 Once Council has confirmed its acceptance of the proposal, engagement and audit arrangements letters, they will need to be signed by the Mayor and returned to Audit New Zealand.
- 7 This report provides a summary of the letters for the Committee’s information. A full copy of the letters are attached to this report for your information.

Recommendation

That the Finance and Audit Committee:

- a) **Receives the report titled “Audit Engagement Letters” dated 3 May 2017.**
- b) **Determines that these matters or decision be recognised as not significant in terms of Section 76 of the Local Government Act 2002.**
- c) **Determines that it has complied with the decision-making provisions of the Local Government Act 2002 to the extent necessary in relation to this decision; and in accordance with Section 79 of the Act determines that it does not require further information, further assessment of options or further analysis of costs and benefits or advantages and disadvantages prior to making a decision on this matter.**
- d) **Accepts the terms, conditions, arrangements and fees as set out in the letters attached.**
- e) **Authorises the Mayor to sign the following letters received from Audit NZ.**
 - **Proposal to conduct the audit of Southland District Council on behalf of the Auditor General for the 2017, 2018 and 2019 financial years**
 - **Audit engagement letter**
 - **Audit arrangements letter for the year ending 30 June 2017**

Content

Background

- 8 The purpose of this report is to provide an overall summary of the three audit letters recently received from Audit NZ.
- 9 The Auditor General has appointed Audit NZ to carry out the audit of the Southland District Council for the 2017, 2018 and 2019 years. The purpose of the proposal letter is to provide information on:
 - The statutory basis for the audit and how the audit fees are set
 - The entities covered by the proposal
 - The key members of the audit team
 - The hours Audit NZ plan to spend on the audit and the reasons for any change in hours
 - The proposed fees for the audit of the financial years ending 30 June 2017, 2018 and 2019 and the reasons for any change
 - Assumptions relating to the proposed audit fees, including what they expect of Council
 - What the OAG overhead charge provides
 - The certification required by the Auditor General
 - Their commitment to conduct the audit in accordance with the Auditor-General’s Auditing Standards.

- 10 The audit engagement letter for the 2017, 2018 and 2019 years outlines:
- The terms of the audit engagement and the nature, and limitations of the annual audit
 - The respective responsibilities of the District Council and Audit NZ as the Appointed Auditor for the financial statements and performance information.
- 11 The audit arrangement letter outlining the audit of the Annual Report for the year ending 30 June 2017 covers the specific arrangements of three key areas as follows:
- Business risks/issues and the audit response
 - Areas of interest for all District Councils
 - Logistics (ie audit team, timing and fees).

Estimated audit hours

- 12 Audit NZ estimate the following hours will be required to carry out the audits (compared to budgeted and actual data from the previous financial year):

| Audit team members | 2016 budget | 2016 actual | 2017 | 2018 | 2019 |
|---------------------------|--------------------|--------------------|-------------|-------------|-------------|
| Appointed Auditor | 64 | 78 | 55 | 55 | 55 |
| Audit Manager | 105 | 84 | 95 | 95 | 95 |
| Other Staff | 484 | 622 | 550 | 550 | 550 |
| Sector specialist support | 8 | 8 | 8 | 8 | 8 |
| Information Systems | 8 | 14 | 8 | 8 | 8 |
| Total audit hours | 669 | 806 | 716 | 716 | 716 |

- 13 The major reasons for 47 hours increase in audit hours relate to:
- A change in the audit team mix which has resulted in an increase of 32 hours overall. The cost implications of this, in 2017, is a reduction of \$1,671 due to less increase in hours by junior staff being offset by a reduction in hours by the senior staff;
 - Changes to mandatory auditing procedures resulting from increased disclosure requirements in local government. It is estimated that an additional 15 hours audit work will be required. This has been costed at an additional \$2,161 for 2017.

Proposed audit fees

- 14 The proposed fees for the next three audits (compared to budgeted and actual data from the previous financial year) are:

| Structure of audit fees | 2016 budget \$ | 2016 actual \$ | 2017 proposed \$ | 2018 proposed \$ | 2019 proposed \$ |
|--|-------------------|-------------------|------------------------|------------------------|------------------------|
| Net audit fee (excluding OAG overhead and disbursements) | 103,490 | 103,490 | 105,154 | 106,328 | 107,436 |
| OAG overhead charge | 9,767 | 9,767 | 10,286 | 10,595 | 10,913 |
| Total audit fee (excluding disbursements) | 113,257 | 113,257 | 115,440 | 116,923 | 118,349 |
| Estimated disbursements | 9,000 | 7,534 | 8,500 | 8,500 | 8,500 |
| Total billable audit fees and charges | 122,257 | 120,791 | 123,940 | 125,423 | 126,849 |
| GST | 18,339 | 18,119 | 18,591 | 18,813 | 19,027 |
| Total (including GST) | 140,596 | 138,910 | 142,531 | 144,236 | 145,876 |

- 15 Apart from the reasons discussed in point 14 above, the main reason for the increase in the fees between years is the predicted annual staff salary cost movements.

Annual Audit for the year ended 30 June 2017

- 16 The audit fee proposed for the 2016/2017 annual report is \$115,440 (GST exclusive) plus disbursements, an increase of 2.61% on the 2015/2016 fee.
- 17 The audit of the 2016/2017 Annual Report is proposed to be carried out in the following stages:

| | |
|-----------------------|--|
| April 2017 | Interim audit visit to: <ul style="list-style-type: none"> Understand the control environment. Review and test systems. Review the systems and process supporting the new mandatory Department of Internal Affairs performance measures. |
| May 2017 | Draft Interim Management Report issued by Audit New Zealand |
| September 2017 | <ul style="list-style-type: none"> Audit New Zealand final visit to audit the Annual Report and supporting work papers. Verbal audit clearance given by Audit New Zealand. Audit New Zealand issue final audit opinion. Final Management Report issued by Audit New Zealand. |

Issues

- 18 Council staff have no issues with the content of the audit engagement and arrangement letters attached.

- 19 The purpose of an audit is to provide an objective independent examination of the financial statements, which increases the value and credibility of the financial statements produced by management and the public, thus increasing user confidence in the financial statements. As such, it is in Council’s interest for Audit NZ to define the audit programme of work.

Factors to Consider

Legal and Statutory Requirements

- 20 Section 98(1) of the Local Government Act 2002 requires the Council to prepare and adopt an Annual Report each financial year. Section 99(1) requires the Annual Report to include an Auditor’s Report.
- 21 In accordance with Section 14(1) of the Public Audit Act 2001, the Council’s Annual Report must be audited by the Office of the Auditor-General. Audit New Zealand is the authorised audit service provider on behalf of the Auditor-General.

Community Views

- 22 No consultation is required as the Annual Report reflects the actual results of activities undertaken during the year compared to the LTP/Annual Plan budgets that were consulted on.

Costs and Funding

- 23 The cost associated with the audit of 2016/2017 Annual Report is \$115,440 (GST exclusive) plus disbursements. Audit Fees of \$125,313 have been budgeted in the 2016/2017 Annual Plan.

Policy Implications

- 24 There are no policy implications

Analysis

Options Considered

Option 1 - Accept and sign the audit letters as provided

| <i>Advantages</i> | <i>Disadvantages</i> |
|---|--|
| <ul style="list-style-type: none"> Allows the Annual Report process to continue as proposed. Confirms Councils auditors for the next three years and the key details around the engagement. | <ul style="list-style-type: none"> None, unless Council requires clarification and this is not sought before signing. |

Option 2 - Request clarification or inclusion of any issue that Council wants included in the audit letters before accepting them

| <i>Advantages</i> | <i>Disadvantages</i> |
|--|--|
| <ul style="list-style-type: none"> Council is able to seek the clarification it requires or discuss the inclusion of any issue it would like incorporated into the audit. | <ul style="list-style-type: none"> Could delay the audit process if Council and Audit New Zealand cannot agree to appropriate arrangements. |

Assessment of Significance

- 25 The decision being made in this report is whether Council should agree to the audit engagement and arrangement proposals presented by Audit NZ. Given the administrative nature of this matter it is not considered significant in terms of Council's Significance Policy.

Recommended Option

- 26 Option 1, Accept and sign the audit arrangements letters as provided.

Next Steps

- 27 If accepted, arrange for the Mayor to sign.
- 28 Council staff will compile the 2016/2017 Annual Report to enable the final audit to be undertaken and adoption to occur on the 27 September 2017.

Attachments

- A Proposal to conduct the audit of Southland District Council for 2017, 2018 and 2019 financial years [↓](#)
- B Audit New Zealand Arrangement Letter 2017 [↓](#)
- C Audit NZ Engagement Letter 2017 [↓](#)

3 May 2017

Level 3, 335 Lincoln Road
PO Box 2, Christchurch 8140

www.auditnz.govt.nz

Fax: 03 961 3059

Gary Tong
Mayor
Southland District Council
PO Box 903
Invercargill 9840

Copy: Director Auditor Appointments
Office of the Auditor-General
PO Box 3928
Wellington
Ref. D844

Dear Gary

Proposal to conduct the audit of Southland District Council on behalf of the Auditor-General for the 2017, 2018 and 2019 financial years

1 Introduction

The Auditor-General has appointed me to carry out the audit of your organisation for the next three years. As required by the Office of the Auditor-General (OAG), I set out below information relating to the audit for the three financial years ending 30 June 2017, 2018 and 2019. The purpose of this proposal is to provide information on:

- the statutory basis for the audit and how audit fees are set;
- the entities covered by this proposal;
- key members of the audit team;
- the hours we plan to spend on the audit and reasons for any change in hours;
- our proposed fees for the audit for the financial years ending 30 June 2017, 2018 and 2019 and reasons for any change;
- assumptions relating to the proposed audit fees, including what we expect of your organisation;
- what the OAG overhead charge provides;
- certification required by the Auditor-General; and
- our commitment to conduct the audit in accordance with the Auditor-General's Auditing Standards.

2 Statutory basis for the audit and how audit fees are set

The audit of your organisation is carried out under Section 15 of the Public Audit Act 2001, which states that “the Auditor-General must from time to time audit the financial statements, accounts, and other information that a public entity is required to have audited”.

Fees for audits of public entities are set by the Auditor-General under section 42 of the Public Audit Act 2001. However, the District Council and I have the opportunity to reach agreement first and recommend those fees for approval. The Auditor-General, with assistance from the OAG, will set audit fees directly only if we fail to reach agreement.

Our proposed audit fees are set out in this letter and include an estimate of the reasonable cost of disbursements (including travel and accommodation where necessary).

3 Entities covered by this proposal

This proposal covers the audits of Southland District Council only.

4 Key members of the audit team

| | |
|-------------------|-------------|
| Appointed Auditor | Ian Lothian |
| Audit Manager | Chris Genet |

5 Estimated audit hours

We estimate that the following hours will be required to carry out the audits (compared to budgeted and actual data from the previous financial year):

| Audit team member | 2016 budget | 2016 actual | 2017 | 2018 | 2019 |
|---------------------------|-------------|-------------|------------|------------|------------|
| Appointed Auditor | 64 | 78 | 55 | 55 | 55 |
| Audit Manager | 105 | 84 | 95 | 95 | 95 |
| Other staff | 484 | 622 | 550 | 550 | 550 |
| Sector specialist support | 8 | 8 | 8 | 8 | 8 |
| Information Systems | 8 | 14 | 8 | 8 | 8 |
| Total audit hours | 669 | 806 | 716 | 716 | 716 |

5.1 Reasons for changes in audit hours

The major reasons for the changes in hours for your organisation’s audit are:

| Reasons for increased audit hours compared to previous period <u>budgeted</u> hours: | 2017 | 2018 | 2019 |
|--|------|------|------|
| Change in audit team mix | 32 | 32 | 32 |

| Reasons for increased audit hours compared to previous period <u>budgeted</u> hours: | 2017 | 2018 | 2019 |
|---|-----------|-----------|-----------|
| Changes to mandatory auditing procedures resulting from increased disclosure requirements in local government | 15 | 15 | 15 |
| Total increase in audit hours | 47 | 47 | 47 |

We have amended the team mix to better reflect the mix of staff used on the audit in recent years. This has resulted in increase in 32 hours overall. Appointed Auditor and Audit Manager budgeted time has decreased, but is offset by an increase in other staff time.

Reporting requirements imposed by local government legislation and regulation have also increased the required audit work we perform on disclosures. We anticipate this has resulted in an additional 15 hours audit work, and therefore propose an additional increase in audit hours of this amount also.

6 Proposed audit fees

Our proposed fees for the next three audits (compared to budgeted and actual data from the previous financial year) are:

| Structure of audit fees | 2016 budget \$ | 2016 actual \$ | 2017 \$ | 2018 \$ | 2019 \$ |
|--|----------------------|----------------------|----------------|----------------|----------------|
| Net audit fee (excluding OAG overhead and disbursements) | 103,490 | 103,490 | 105,154 | 106,328 | 107,436 |
| OAG overhead charge | 9,767 | 9,767 | 10,286 | 10,595 | 10,913 |
| Total audit fee (excluding disbursements) | 113,257 | 113,257 | 115,440 | 116,923 | 118,349 |
| Estimated disbursements | 9,000 | 7,534 | 8,500 | 8,500 | 8,500 |
| Total billable audit fees and charges | 122,257 | 120,791 | 123,940 | 125,423 | 126,849 |
| GST | 18,339 | 18,119 | 18,591 | 18,813 | 19,027 |
| Total (including GST) | 140,596 | 138,910 | 142,531 | 144,236 | 145,876 |

The audit fees allow for the audit team to carry out specific tasks identified in the OAG Sector Brief and for the OAG overhead charge. We have also estimated the reasonable cost of disbursements (including travel and accommodation where necessary). Disbursement costs are indicative only and will be charged on an actual and reasonable basis.

6.1 Reasons for changes in audit fees

The main changes in cost components for future audits are:

| Reasons for increased audit fees compared to previous period budgeted fees. | 2017 | 2018 | 2019 |
|---|--------------|--------------|--------------|
| Predicted staff salary cost movements | 1,693 | 1,483 | 1,426 |
| Change in audit team mix | (1,671) | | |
| Changes to mandatory auditing procedures resulting from increased disclosure requirements in local government | 2,161 | | |
| Total increase in audit fees | 2,183 | 1,483 | 1,426 |

7 Assumptions relating to our audit fee

Our proposed audit fees are based on the following assumptions:

- You will provide to us in a timely manner the complete information required by us to conduct the audit.
- Your staff will provide us with an appropriate level of assistance.
- Your organisation's annual report and financial statements (including Statements of Service Performance) will be subject to appropriate levels of quality review before being submitted to us for audit.
- Your organisation's financial statements will include all relevant disclosures.
- We will review up to two sets of draft annual reports, one printer's proof copy of the annual report, and one copy of the electronic version of the annual report (for publication on your website).
- There are no significant changes to the structure and/or scale of operations of the entities covered by this proposal (other than as already advised to us).
- There are no significant changes to mandatory accounting standards or the financial reporting framework that require additional work.
- There are no significant changes to mandatory auditing standards that require additional work other than items specifically identified in the tables above.
- There are no significant changes to the agreed audit arrangements (set out in an annual letter we will send you) that change the scope of, or disbursements related to, this audit.

If the scope and/or amount of work changes significantly, we will discuss the issues with you and the OAG at the time.

8 What the OAG overhead charge provides

Parliament has indicated that it expects the full cost of annual audits under the Public Audit Act (including an OAG overhead charge) to be funded by public entities.

The OAG overhead charge partially funds a range of work that supports auditors and entities, including:

- development and maintenance of auditing standards;
- technical support for auditors on specific accounting and auditing issues;
- ongoing auditor training on specific public sector issues;
- preparation of sector briefs to ensure a consistent approach to annual audits;
- development and maintenance of strategic audit plans; and
- carrying out quality assurance reviews of all auditors, and their audits and staff on a regular (generally, three-year) cycle.

Appointed Auditors are required to return the OAG overhead charge portion of the audit fee, to the OAG.

9 Certifications required by the Auditor-General

We certify that:

- the undertakings, methodology, and quality control procedures that we have declared to the OAG continue to apply;
- our professional indemnity insurance policy covers this engagement; and
- the audit will be conducted in accordance with the terms and conditions of engagement set out in the audit engagement agreement and schedules.

10 Conclusion

As the Appointed Auditor, I am committed to providing you and the Auditor-General with the highest level of professional service. I intend to work with you, the OAG, and the Auditor-General in a partnership environment to resolve any issues that may arise.

If you require any further information, please do not hesitate to contact me.

Please counter-sign this letter (below) to confirm that you, and the governing body of your organisation, agree with its contents. This letter will then form the basis for a recommendation to the Auditor-General on the audit fee that should be set. The schedules of audit hours and fees will also be incorporated into my audit engagement agreement with the Auditor-General to carry out the audit of your organisation as the agent of the Auditor-General.

Yours sincerely



Ian Lothian
Director

I accept the audit fees for the audit of the three financial years as stated above.

Full name: Gary Tong Position: Mayor

Authorised signature: _____ Date: _____

Entity name: Southland District Council

Actions to take when agreement has been reached:

- 1 Make a copy of this signed proposal and keep it for your file.
- 2 Send the original to: Ian Lothian
Audit New Zealand
PO Box 2
Christchurch 8140

3 May 2017

Level 3, 335 Lincoln Road
PO Box 2, Christchurch 8140

www.auditnz.govt.nz

Fax: 03 961 3059

Gary Tong
Mayor
Southland District Council
PO Box 903
Invercargill 9840

cc Cr Ebel Kremer – Chair of Finance and Audit Committee
Steve Ruru – Chief Executive
Anne Robson – Chief Financial Officer

Dear Gary

Audit for the year ending 30 June 2017

I am writing to outline our arrangements for the audit of Southland District Council for the year ending 30 June 2017. This letter has two main sections – an agreement to be signed, and details of the audit.

Agreement to be signed

On the next page is an agreement for you to sign. Your signature confirms that the details of the audit match your understanding of the arrangements for this year's audit.

Please sign and return one copy of the agreement, along with a copy of the details of the audit.

Details of the audit

Here we set out the proposed arrangements for this year's audit. These include:

- business risks/issues and our audit response;
- areas of interest for all District Councils; and
- logistics (such as our audit team, timing, and fees).

Additional information attached

Additional information about the audit has been included in Appendix 1.

Please take the time to read this document thoroughly before returning the signed agreement. If there are additional matters that should be included, or any matters requiring clarification, please contact me.

Yours sincerely



Ian Lothian
Director

Agreement to be signed

I acknowledge that the details of the audit set out here are in keeping with my understanding of the arrangements for the audit.

Signed _____ Date _____
Gary Tong
Mayor

Details of the audit

1 Introduction

This document sets out the arrangements for the audit of Southland District Council (the District Council) for the year ending 30 June 2017. These include:

- business risks/issues and our audit response;
- areas of interest for all District Councils; and
- logistics (such as our audit team, timing, and fees).

2 Your audit-related risks/issues and our audit response

Based on the planning work and discussions that we have completed to date, we have identified what we consider to be the main audit-related risks and issues facing the District Council. Such risks and issues are relevant to the audit because they affect our ability to form an opinion on your financial statements. As part of the wider public sector audit mandate, we are also required to be alert to issues of effectiveness and efficiency, waste and a lack of probity or financial prudence (as set out in the Audit Engagement Letter dated 3 May 2017).

| Your audit-related risks/issues | Our audit response |
|---|--|
| Revaluation of infrastructural assets | |
| <p>For assets that are revalued <i>PBE IPSAS 17 Property, Plant and Equipment</i> requires that the valuations are carried with sufficient regularity to ensure that the carrying amount of an asset class does not differ materially from its fair value.</p> <p>Where an asset class that applies the revaluation model is not revalued at balance date, the District Council will need to undertake an assessment as to whether the estimated fair value of the asset class is materially different from the carrying value.</p> | <p>For asset classes which are not revalued this year, we will review management's assessment of whether the estimated fair value of an asset class has materially changed from its carrying value.</p> <p>Where the District Council conducts a valuation of its assets at balance date, we will review the valuation whether the valuation complies with relevant valuation and accounting standards, the assumptions applied are reasonable, and the revaluation movement has been accounted for correctly in the financial statements.</p> |

We will also follow up on progress made by the District Council in its response to our previous recommendations.

Please tell us about any additional matters that we should be aware of as your auditor, and any specific significant business risks that we have not covered.

3 Our areas of interest for all Local Authorities

There are also a number of key matters common to the Local Government sector. The table below outlines our areas of interest for this year’s audit.

| Area of interest | Our audit response |
|--|---|
| Project management | |
| <p>The District Council has several high value or high profile capital projects underway. As a result the District Council needs to perform effective project monitoring, and ensure the associated accounting treatments are appropriately applied.</p> | <p>We will:</p> <ul style="list-style-type: none"> • Update our understanding of significant projects. • Follow up on the progress made on the findings of the independent review performed. • Review the accounting treatment applied to expenditure for compliance with relevant accountings standards and in line with the District Council's accounting policy. |
| Non-financial performance reporting | |
| <p>Each year, we audit the performance information and report on whether it fairly reflects the achievements measured against the targets and other measures in the District Council's Annual Plan. This year will be the second year of reporting against the mandatory performance measures mandated by the Non-Financial Performance Measures Rules 2013. We expect the District Council will continue to embed and refine its performance reporting processes this year.</p> | <p>We will report our findings on the District Council's reporting against non-financial performance in the management letter (if warranted). In particular we will focus on:</p> <ul style="list-style-type: none"> • the reliability of systems; • the operation of controls (including policies, procedures and monitoring); • the appropriateness of the information reported; and • the presentation of the information. |
| Legislative compliance | |
| <p>To discharge the Auditor-General's mandate, we carry out an audit of legislative compliance. We limit this review to obtaining assurance that you have complied with significant legislative requirements that may directly affect the financial statements or general accountability. Our review does not cover all of the District Council's legislative compliance requirements.</p> | <p>Our approach involves assessing the systems and procedures that the District Council has in place to ensure compliance with significant legislation. We will also complete our own checklists covering the key requirements of significant legislation.</p> |

| Area of interest | Our audit response |
|---|---|
| Fraud risk | |
| <p>The auditing standard ISA (NZ) 240 The auditor’s responsibilities relating to fraud in an audit of financial statements, issued by the External Reporting Board, requires that we make enquiries of:</p> <ul style="list-style-type: none"> • entity management; and • those charged with governance <p>on matters such as their assessment of the risk of fraud and the accounting and internal control systems designed to prevent and detect frauds.</p> <p>We have previously explained to the District Council, the representation we will ask them to sign near the completion of the audit in relation to fraud. We will continue to require this representation from the District Council.</p> | <p>We will undertake formal discussions with senior management and the Activities Performance Audit Committee, on matters concerning fraud risk awareness, identification of susceptible areas, and the mitigating controls that the District Council has put in place.</p> <p>Please notify us without delay of any serious fraud, whether suspected or discovered.</p> <p>When looking at the District Council’s system of internal control to prevent and detect fraud, we will also consider the:</p> <ul style="list-style-type: none"> • quality of documented delegations, authorisation and approval procedures and whether these are followed in practice; • adequacy of procurement policies and procedures particularly around how any conflict of interest is detected and managed; and • quality of documented sensitive expenditure policies and whether these are followed. |

4 Logistics

4.1 Our audit team

The Audit New Zealand staff involved in the audit are:

| | |
|---------------------|------------------|
| Ian Lothian | Director |
| Chris Genet | Audit Manager |
| Hayley Bezuidenhout | Audit Supervisor |

4.2 Important dates in the audit process

Our proposed timetable is:

| | Date |
|---|-------------------|
| Interim audit commenced | 3 April 2017 |
| Draft interim management report issued | 4 May 2017 |
| Draft financial statements available for audit ¹ | 4 September 2017 |
| Final audit begins | 4 September 2017 |
| Verbal audit clearance given | 25 September 2017 |

¹ Financial statements (including notes to the financial statements) with actual year-end figures.

| | Date |
|--|-------------------|
| Annual report ² available for audit | 11 September 2017 |
| Audit opinion issued | 27 September 2017 |
| Draft final detailed management report issued | 27 September 2017 |
| Management comments provided | 11 October 2017 |
| Final management report issued | 13 October 2017 |

4.3 Our interim audit visit

We carried out the interim audit during April 2017. During this visit, we focussed on updating our understanding of the District Council's internal control. This includes reviewing the control environment, risk assessment processes and relevant aspects of information systems controls. We use the results of this assessment to determine how much we can rely on the information produced from your systems during our final audit.

4.4 Our final audit visit

Our final audit is scheduled to start on 4 September 2017 and is expected to last two weeks. During this visit we will be auditing the balances, disclosures, and other information included in your financial statements.

4.5 Professional fees

Our audit fee estimate for the year ending 30 June 2017 is \$115,440 plus disbursements (GST exclusive). This is as agreed in the Audit Proposal Letter dated 3 May 2017.

The fee is an estimate and assumes that the expectations discussed in Appendix 1 will be met. If this does not occur, or the scope of the audit changes, we will discuss this further with you.

We propose to bill as follows:

| | Amount |
|-----------|------------------|
| April | 30,000 |
| May | 15,000 |
| September | 25,000 |
| October | 45,440 |
| | <u>\$115,440</u> |

To ensure we can complete the audit within the proposed time frame (see section 4.2) and agreed fee, it is critical that you make appropriate supporting documentation available to us on a timely basis. If this is not the case, it is likely to result in cost overruns, which we may seek to recover. To help you prepare for the audit, we will liaise with management and provide them with a detailed list of the information we will need for the audit.

² Annual report, including any Chair's and Chief Executive's overview or reports.

Appendix 1: Additional information about the audit

Our reporting protocols

Management reports

We will provide a draft of all management reports to management for discussion/clearance purposes. In the interests of timely reporting, we ask management to provide their comments on the draft within 10 working days. Once management comments are received the report will be finalised and provided to the District Council.

Reporting of misstatements

We will include details of all uncorrected misstatements in our management report. Misstatements are differences in, or omissions of, amounts and disclosures that may affect a reader's overall understanding of the District Council's financial statements.

During the audit, we will provide details of any such misstatements we identify to an appropriate level of management. We will ask for each misstatement to be corrected in the District Council's financial statements. Where management does not wish to correct a misstatement we will seek written representations from representatives of the District Council's governing body that specify the reasons why the corrections will not be made.

Our expectations of you to enable an efficient audit

To enable us to carry out our audit efficiently within the proposed audit fee, we expect that:

- the District Council will provide us with access to all relevant records and provide information in a timely manner;
- your staff will provide an appropriate level of assistance;
- the financial statements will be available at the start of the final audit, include all relevant disclosures, and be fully supported by a detailed workpaper file; and
- the annual report and financial statements (including the statement of service performance) will be subjected to appropriate levels of quality review before submission for audit.

Our audit fee is based on the assumption that we will review no more than two sets of the draft annual report, one printer's proof copy of the annual report, and one copy of the electronic version of the annual report for publication on the District Council's website.

How we consider your compliance with statutory authority

As part of the Auditor-General's mandate, we carry out an audit of compliance with statutory authority. Our audit is limited to obtaining assurance that you have complied with certain laws and regulations that may directly affect the District Council's financial statements or general accountability. Our audit does not cover all of the District Council's requirements to comply with statutory authority.

Our approach to this aspect of the audit will mainly involve assessing the systems and procedures that are in place to ensure compliance with certain laws and regulations that we consider to be significant. We will also complete our own checklists covering the key requirements of significant legislation. In addition, we will remain alert for any instances of non-compliance that come to our attention. We will evaluate the relevance of any such non-compliance to our audit.

3 May 2017

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PO Box 2, Christchurch 8140

www.auditnz.govt.nz

Fax: 03 961 3059

Gary Tong
Mayor
Southland District Council
PO Box 903
Invercargill 9840

Dear Gary

Audit engagement letter

This audit engagement letter is sent to you on behalf of the Auditor-General, who is the auditor of all "public entities", including the Southland District Council (the District Council) under section 14 of the Public Audit Act 2001 (the Act). The Auditor-General has appointed me, Ian Lothian, using the staff and resources of Audit New Zealand, under sections 32 and 33 of the Act, to carry out the annual audits of the District Council's financial statements and performance information. We will be carrying out these annual audits on the Auditor-General's behalf, for the years ending 30 June 2017 to 30 June 2019.

This letter outlines:

- the terms of the audit engagement and the nature, and limitations, of the annual audit; and
- the respective responsibilities of the District Council and me as the Appointed Auditor for the financial statements and performance information.

The objectives of the annual audit are:

- to provide an independent opinion on the District Council's financial statements and performance information; and
- to report on other matters relevant to the District Council's financial and other management systems that come to our attention, need improvement or are significant (for example, non-compliance with statutory obligations or a lack of probity).

We will carry out the audit in accordance with the Auditing Standards issued by the Auditor-General, which incorporate the International Standards on Auditing (New Zealand). They require that we comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the District Council's financial statements and performance information are free from material misstatements.

Your responsibilities

Our audit will be carried out on the basis that the District Council acknowledges that it has responsibility for:

A BUSINESS UNIT OF THE CONTROLLER AND AUDITOR-GENERAL

- preparing the financial statements and performance information in accordance with legal requirements and financial reporting standards;
- having such internal control as you determine is necessary to enable you to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error; and
- providing us with:
 - access to all information of which the District Council is aware that is relevant to preparing the financial statements and performance information such as records, documentation, and other matters;
 - additional information that we may request from the District Council for the purpose of the audit;
 - unrestricted access to District Council members and employees that we consider necessary; and
 - written confirmation concerning representations made to us in connection with the audit.

In addition, the District Council is responsible:

- for the preparation of the summary financial statements and summary performance information in accordance with the applied criteria;
- to make the audited financial statements and summary performance information available to the intended users of that information without undue difficulty; and
- to include our audit report on the summary financial statements and summary performance information in any document that contains that information and that indicates that we have reported on them.

The District Council's responsibilities extend to all resources, activities, and entities under its control. We expect that the District Council will ensure:

- the resources, activities and entities under its control have been operating effectively and efficiently;
- it has complied with its statutory obligations including laws, regulations, and contractual requirements;
- it has carried out its decisions and actions with due regard to minimising waste;
- it has met Parliament's and the public's expectations of appropriate standards of behaviour in the public sector in that it has carried out its decisions and actions with due regard to probity; and
- its decisions and actions have been taken with due regard to financial prudence.

We expect the District Council and/or the individuals within the District Council with delegated authority to immediately inform us of any suspected fraud, where there is a reasonable basis that suspected fraud has occurred regardless of the amount involved. Suspected fraud also includes instances of bribery and/or corruption.

The District Council should have documented policies and procedures to support its general responsibilities. It should also regularly monitor performance against its objectives.

The District Council has certain responsibilities relating to the preparation of the financial statements and performance information and in respect of financial management and accountability matters. These specific responsibilities are set out in Appendix 1. We assume that members of the District Council are familiar with those responsibilities and, where necessary, have obtained advice about them.

Our responsibilities

Carrying out the audit

We are responsible for forming an independent opinion on whether the financial statements and performance information of the District Council:

- comply with generally accepted accounting practice; and
- presents fairly, in all material aspects its position and performance.

An audit involves obtaining evidence about the amounts and disclosures in the financial statements and performance information. How we obtain this information depends on our judgement, including our assessment of the risks of material misstatement of the financial statements and performance information, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements and performance information.

We do not examine every transaction, nor do we guarantee complete accuracy of the financial statements and performance information. Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with the Auditing Standards.

During the audit, we consider internal control relevant to the District Council's preparation of the financial statements and performance information, but not for the purpose of expressing an opinion on the effectiveness of the District Council's internal controls.

Please note that the audit does not relieve the District Council of its responsibilities. The Auditor-General expects members of the District Council to be familiar with those responsibilities and, where necessary, to have obtained advice about them.

However, we will communicate to you in writing any significant deficiencies in internal control relevant to the audit of the financial statements and performance information that we have identified during the audit.

The audit team is required to be alert for issues of:

- effectiveness and efficiency – in particular, how the District Council has carried out their activities;
- non-compliance with laws, regulations, and contractual requirements;
- waste – in particular, whether the District Council obtained and applied the resources of the District Council in an economical manner and whether any resources are being wasted;
- a lack of probity – in particular, whether the District Council has met Parliament's and the public's expectations of appropriate standards of behaviour in the public sector; and
- a lack of financial prudence.

Our independence

It is essential that the audit team and Audit New Zealand remain both economically and attitudinally independent of the District Council (including management and the Council). This involves being, and appearing to be, free of any interest that might be regarded, whatever its actual effect, as being incompatible with integrity, objectivity, and independence.

To protect our independence, specific limitations are placed on us in accepting engagements with the District Council other than the annual audit. We may accept certain types of other engagements, subject to the requirements of the Auditing Standards. Any such other engagements must be the subject of a separate written arrangement between the District Council and me or Audit New Zealand.

Reporting

We will issue an audit report that will be attached to the financial statements and performance information. This report contains an opinion that provides readers with reasonable assurance on whether the financial statements and performance information have been prepared in accordance with legal requirements, are free from material misstatements, and comply with financial reporting standards. It may also contain comment on matters such as compliance with statutory obligations and other matters that we consider may be of interest to the readers of the audit report. In addition, we will issue an audit report that will be attached to the summary financial statements and summary performance information. This audit report will contain an opinion that provides the same level of assurance as the audit report on the financial statements and performance information.

We will also issue a management letter that will be sent to the District Council. This letter communicates any matters that come to our attention during the audit that, in our opinion, are relevant to the District Council (for example, internal control weaknesses, probity matters, or compliance with statutory obligations). We may also provide other management letters to the District Council from time to time. We will inform the District Council of any other management letters we have issued.

Please note that the Auditor-General may publically refer to matters that are identified in the annual audit, in keeping with section 21 of the Public Audit Act 2001.

Next steps

Please acknowledge receipt of this letter and the terms of the audit engagement by signing the enclosed copy of the letter in the space provided and returning it to me. The terms will remain effective until a new Audit Engagement Letter is issued.

Appendix 2 contains some additional "other" responsibilities for the audit.

If you have any questions about the audit generally, or have any concerns about the quality of the audit, you should contact me as soon as possible on 021 222 6020. If after contacting me you still have concerns, you should contact the Director of Auditor Appointments at the Office of the Auditor-General on (04) 917 1500.

If you require any further information, or wish to discuss the terms of the audit engagement further before replying, please do not hesitate to contact me.

Yours sincerely



Ian Lothian
Director
On behalf of the Auditor-General

I acknowledge the terms of this engagement and that I have the required authority on behalf of the District Council.

Signed _____ Date _____
Gary Tong
Mayor

Appendix 1: Respective specific responsibilities of the District Council and the Appointed Auditor

| Responsibilities of the District Council | Responsibilities of the Appointed Auditor |
|---|---|
| Responsibilities for the financial statements and performance information | |
| <p>You are required by legislation to prepare financial statements and, where appropriate, other accountability statements that comply with generally accepted accounting practice in New Zealand and that present fairly, in all material respects the activities of the District Council during the year, and its financial position at the end of the year.</p> <p>You must also ensure that any accompanying information in the annual report is consistent with that reported in the audited financial statements and performance information.</p> <p>You are required by legislation to prepare the financial statements and performance information and provide that information to the appointed auditor before the statutory reporting deadline. It is normal practice for you to set your own timetable to comply with statutory reporting deadlines.</p> | <p>We are responsible for carrying out an annual audit, on behalf of the Auditor-General, and to form an opinion on whether the District Council's financial statements and performance information have been prepared in accordance with legal requirements, comply with generally accepted accounting practice in New Zealand, and presents fairly, in all material respects the position and performance of the District Council.</p> <p>We will also read other accompanying information to the financial statements and performance information to identify whether there are material inconsistencies with the audited financial statements and performance information.</p> <p>Materiality is one of the main factors affecting our judgement on the areas to be tested and on the timing, nature, and extent of the tests and procedures performed during the audit. In planning and performing the annual audit, we aim to obtain reasonable assurance that the financial statements and performance information do not have material misstatements caused by either fraud or error. Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence a reader's overall understanding of the financial statements and performance information.</p> <p>If we find material misstatements that are not corrected, they will be referred to in the audit opinion. The Auditor-General's preference is for you to correct any material misstatements and avoid the need for them to be referred to in the audit opinion.</p> <p>An audit also involves evaluating:</p> <ul style="list-style-type: none"> • the appropriateness of accounting policies used and whether they have been consistently applied; • the reasonableness of the significant accounting estimates and judgements made by those charged with governance; |

| Responsibilities of the District Council | Responsibilities of the Appointed Auditor |
|---|---|
| | <ul style="list-style-type: none"> • the appropriateness of the content and measures in any non-financial accountability statements; • the adequacy of all disclosures in the financial statements and performance information; and • the overall presentation of the financial statements and performance information. <p>We will ask you for written confirmation of representations made to us about the financial statements and performance information. In particular, we will seek confirmation that:</p> <ul style="list-style-type: none"> • the adoption of the going concern assumption is appropriate; • all material transactions have been recorded and are reflected in the financial statements and performance information; • all instances of non-compliance or suspected non-compliance with laws and regulations have been disclosed; and • uncorrected misstatements noted during the audit are immaterial to the financial statements and performance information. <p>Any representation made does not in any way reduce our responsibility to perform appropriate audit procedures and enquiries.</p> |
| Responsibilities for the accounting records | |
| <p>You are responsible for maintaining accounting and other records that:</p> <ul style="list-style-type: none"> • correctly record and explain the transactions of the District Council; • enable you to monitor the resources, activities, and entities under its control; • enable the District Council's financial position to be determined with reasonable accuracy at any time; • enable you to prepare financial statements and performance information that comply with legislation (and that allow the financial statements and performance information to be readily and properly audited); and • are in keeping with the requirements of the Commissioner of Inland Revenue. | <p>We will perform sufficient tests to obtain reasonable assurance as to whether the underlying records are reliable and adequate as a basis for preparing the financial statements and performance information.</p> <p>If, in our opinion, the records are not reliable or accurate enough to enable the preparation of the financial statements and performance information and the necessary evidence cannot be obtained by other means, we will need to consider the effect on the audit opinion.</p> |

| Responsibilities of the District Council | Responsibilities of the Appointed Auditor |
|---|---|
| Responsibilities for accounting and internal control systems | |
| <p>You are responsible for establishing and maintaining accounting and internal control systems (appropriate to the size of the District Council), supported by written policies and procedures, designed to provide reasonable assurance as to the integrity and reliability of financial and, where applicable, non-financial reporting.</p> | <p>The annual audit is not designed to identify all significant weaknesses in your accounting and internal control systems. We will review the accounting and internal control systems only to the extent required to express an opinion on the financial statements and performance information. We will report to you separately any weaknesses in the accounting and internal control systems that come to our notice and that we consider may be relevant to you. Any such report will provide constructive recommendations to assist you to address those weaknesses.</p> |
| Responsibilities for preventing and detecting fraud and error | |
| <p>The responsibility for the prevention and detection of fraud and error rests with you through the implementation and continued operation of adequate internal control systems (appropriate to the size of the District Council) supported by written policies and procedures.</p> <p>We expect you to formally address the matter of fraud, and formulate an appropriate policy on how to minimise it and (if it occurs) how it will be dealt with. Fraud also includes bribery and corruption.</p> <p>We expect you to consider reporting all instances of actual, suspected or alleged fraud to the appropriate law enforcement agency, which will decide whether proceedings for a criminal offence should be instituted. We expect you to immediately inform us of any suspected fraud, where you, and/or any individuals within the District Council with delegated authority have a reasonable basis that suspected fraud has occurred, regardless of the amount involved.</p> | <p>We design our audit to obtain reasonable, but not absolute, assurance of detecting fraud or error that would have a material effect on the financial statements and performance information. We will review the accounting and internal control systems only to the extent required for us to express an opinion on the financial statements and performance information, but we will:</p> <ul style="list-style-type: none"> • assess the effectiveness of internal control systems and procedures for preventing and detecting fraud and error; and • report to you significant weaknesses in internal control systems and procedures for monitoring the prevention and detection of fraud and error that come to our notice and that we consider could be relevant to you. <p>We are required to immediately advise the Office of the Auditor-General of all instances of actual, suspected or alleged fraud.</p> <p>As part of the audit, you will be asked for written confirmation that you have disclosed all known instances of actual, suspected or alleged fraud to us.</p> <p>If we become aware of the possible existence of fraud, whether through applying audit procedures, advice from you or management, or by any other means, we will communicate this to you with the expectation that you will consider whether it is appropriate to report the fraud to the appropriate law enforcement agency. In the event that you do not report fraud to the appropriate law enforcement agency, the Auditor-General will consider doing so if it is appropriate for the purposes of protecting the interests of the public.</p> |

| Responsibilities of the District Council | Responsibilities of the Appointed Auditor |
|--|---|
| Responsibilities for compliance with laws and regulations | |
| <p>You are responsible for ensuring that the District Council has systems, policies, and procedures (appropriate to the size of the District Council) to ensure that all applicable legislative, regulatory, and contractual requirements that apply to the activities and functions of the District Council are complied with. Such systems, policies, and procedures should be documented.</p> | <p>We will assess whether you have systems, policies, and procedures to ensure compliance with those legislative, regulatory, and contractual requirements that are relevant to the audit. We will either perform specific audit tests to assess whether you have complied with statutory requirements that are relevant to the audit or will maintain an awareness for possible non-compliance that may be relevant to the audit.</p> <p>The way in which we will report instances of non-compliance that come to our attention will depend on considerations of materiality or significance. We will report to you and to the Auditor-General all material and significant instances of non-compliance.</p> <p>We will also report to you any significant weaknesses that we observe in internal control systems, policies, and procedures for monitoring compliance with laws, regulations, and contractual requirements that we consider may be relevant.</p> |
| Responsibilities to establish and maintain appropriate standards of conduct and personal integrity | |
| <p>You should at all times take all practicable steps to ensure that your members and employees maintain high standards of conduct and personal integrity. You should document your expected standards of conduct and personal integrity in a “Code of Conduct” and, where applicable, support the “Code of Conduct” with policies and procedures.</p> <p>The expected standards of conduct and personal integrity should be determined by reference to accepted “Codes of Conduct” that apply to the public sector.</p> | <p>We will have regard to whether you maintain high standards of conduct and personal integrity. Specifically, we will be alert for significant instances where members and employees of the District Council may not have acted in accordance with the standards of conduct and personal integrity expected of them.</p> <p>The way in which we will report instances that come to our attention will depend on significance. We will report to you and to the Auditor-General all significant instances of departure from expected standards of conduct and personal integrity.</p> <p>The Auditor-General, on receiving a report from us, may, at their discretion and with consideration of its significance, decide to conduct a performance audit of, or an inquiry into, the matters raised. The performance audit or inquiry will be subject to specific terms of reference, in consultation with you. Alternatively, the Auditor-General may decide to publicly report the matter without carrying out a performance audit or inquiry.</p> |

| Responsibilities of the District Council | Responsibilities of the Appointed Auditor |
|--|--|
| Responsibilities for conflicts of interest and related parties | |
| <p>You should have policies and procedures to ensure that your members and employees carry out their duties free from bias.</p> <p>You should maintain a full and complete record of related parties and their interests. It is your responsibility to record and disclose related-party transactions in the financial statements and performance information in accordance with generally accepted accounting practice.</p> | <p>To help determine whether your members and employees have carried out their duties free from bias, we will review information provided by you that identifies related parties and will be alert for other material related-party transactions. We will check that you have complied with any statutory requirements for conflicts of interest and whether these transactions have been properly recorded and disclosed in the financial statements and performance information.</p> |
| Responsibilities for publishing the audited financial statements on a website | |
| <p>You are responsible for the electronic presentation of the financial statements and performance information on the District Council's website. This includes ensuring that there are enough security and controls over information on the website to maintain the integrity of the data presented.</p> <p>If you intend to publish or reproduce the financial statements and performance information, together with the audit report, on a website, you must, before publication, provide us with a draft version of the documents to read and must obtain our approval to include the audit report with the information you intend publishing on the website.</p> <p>If the audit report is reproduced in any medium, you should present the complete financial statements, including notes and accounting policies as well as any other accountability statements.</p> <p>If you intend to post any new material not previously read by us, you must advise us before posting the new material.</p> | <p>We will perform procedures to satisfy ourselves that the information you intend including on your website is consistent with the audited financial statements and performance information and that the audit report will not be inappropriately associated with any information that has not been audited.</p> <p>Examining the controls over the electronic presentation of audited financial statements and performance information, and the associated audit report, on your website is beyond the scope of the annual audit.</p> <p>We will review the material on initial posting and on notification from you that new material has been posted on the website. We do not carry out ongoing monitoring of the material on your website.</p> |

Appendix 2: Other responsibilities

To meet the reporting deadlines, we are dependent on receiving the District Council's financial statements and performance information ready for audit and in enough time to enable the audit to be completed. "Ready for audit" means that the financial statements and performance information have been prepared in accordance with legal requirements, comply with generally accepted accounting practice and present fairly, in all material respects, the activities and position of the District Council and are supported by proper accounting records and complete accounting records and complete evidential documentation.

We will ensure that the annual audit is completed by the reporting deadline or, if that is not practicable because of the non-receipt or condition of the financial statements and performance information, or for some other reason beyond our control, as soon as possible after that.

The workpapers that we produce in carrying out the audit are the property of the Auditor-General. Workpapers are confidential to the Auditor-General and subject to the disclosure provisions in section 30 of the Public Audit Act 2001.

The Auditor-General and Audit New Zealand take seriously their responsibility to provide a safe working environment for audit staff. Under the Health and Safety at Work Act 2015 we need to make arrangements with you to keep our audit staff safe while they are working at your premises. We expect you to provide a work environment for our audit staff that is without risks to their health and safety. This includes providing adequate lighting and ventilation, suitable desks and chairs, and safety equipment, where required. We also expect you to provide them with all information or training necessary to protect them from any risks they may be exposed to at your premises. This includes advising them of emergency evacuation procedures and how to report any health and safety issues.

Interim Management Report from Audit New Zealand for the year ended 30 June 2017

Record No: R/17/5/9859
Author: Jacobus Meyer, Financial Accountant
Approved by: Anne Robson, Chief Financial Officer

Decision Recommendation Information

Summary of Report

- 1 As part of the audit process, Audit New Zealand provides Council with a report at the conclusion of the interim stage of its Annual Report audit, outlining the work that was performed and any recommended areas for improvement.
- 2 Attached is the management letter received from Audit New Zealand (Audit NZ) in relation to the interim audit (Appendix A) for the year ended 30 June 2017.
- 3 Audit New Zealand did not identify any significant or material issues during Council's interim audit for the year ended 30 June 2017.
- 4 However, during the process Audit NZ did identify a number of areas for improvement.
- 5 The table below outlines the recommendations made by Audit NZ in these reports, in the form of an action list.
- 6 Council staff will work to implement/resolve the recommendations identified by Audit NZ, in accordance with the self-imposed timelines. April 2017 is the primary self-imposed deadline as this is the anticipated date that Audit NZ will visit to undertake their interim procedures for the 2017 audit.

| Matters from Interim Management Report | Responsibility | Status | Due Date |
|--|-----------------------------|-------------|---------------|
| Policy development and review <ul style="list-style-type: none"> • implement the recommendations from the Deloitte Shared Business Process Review; • continue to implement a formal programme of review for policies; and • ensure staff are able to locate key policies, and are aware of their contents. | Strategy and Policy Manager | In progress | December 2017 |
| Property, plant and equipment reconciliation Complete a monthly reconciliation between the fixed asset register and general ledger. The reconciliation should be reviewed by an independent person on a one-up basis. | Sheree Marrah | In progress | June 2017 |

| Matters from Previous Management Reports | Responsibility | Status | Due Date |
|---|-----------------------------|-------------|---|
| <p>Purchase order system Complete an independent review of purchase orders raised and authorised by the same person. Review core data changes made by administration users.</p> | Sheree Marrah | Complete | |
| <p>Creditor masterfile changes All masterfile changes should be independently reviewed and signed off.</p> | Sheree Marrah | Complete | |
| <p>Policies Ensure all policies are up to date and periodically reviewed.</p> | Strategy and Policy Manager | In progress | Ongoing |
| <p>Contract management Develop a formal approach to contract management. Develop a contract management policy.</p> | Ian Marshall | In progress | June 2017 (framework) December 2017 (policy) |
| <p>Legislative compliance Develop a formal system for legislative compliance.</p> | Strategy and Policy Manager | In progress | |
| <p>Super user accounts The list of users with access to the domain administrator group should be reviewed and limited only to those system and user accounts that require this access to perform their function. In addition, the built in administrator account password should be changed and usage of the account limited. Good practice is for the password to be changed when IT staff leave or every six months.</p> | Damon Campbell | In progress | |
| <p>Formal IS Agreement Develop a formal agreement with Invercargill City Council should the Council retain the IS services provided by the Invercargill City Council.</p> | Damon Campbell | Not started | |

Recommendation

That the Finance and Audit Committee:

- a) Receives the report titled “Interim Management Report from Audit New Zealand for the year ended 30 June 2017” dated 24 May 2017.

Attachments

- A Auditor's Interim Management Report year ending 2017 [↓](#)

Report to the Council on the interim audit of
Southland District Council
for the year ending 30 June 2017

Key messages

Summary

We have completed our interim audit of Southland District Council (the Council) for the year ending 30 June 2017. This report sets out our findings from the work we have performed to date.

The primary purpose of our interim audit visit was to update our understanding of the Council's control environment, identify any control improvements required, and to confirm the extent to which we can rely on the controls in place for the Council. The Council continues to operate an effective control environment.

We will update our findings at the final audit, and if these are consistent with what we have found at our interim audit, we expect to be able to rely on key aspects of the control environment as part of our overall audit approach.

Thank you

We would like to thank the Council, management, and members of their teams for their assistance provided during the interim audit visit.



Ian Lothian
Audit Director
23 May 2017

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1 Assessment of your control environment

We have performed a high-level assessment of the control environment. This assessment was performed for the purpose of planning the most effective and efficient audit approach, in order to enable us to express an audit opinion on the Council's financial statements and the non-financial information. We considered the overall attitude, awareness, and actions of the Council and management in establishing and maintaining effective management procedures and internal controls.

In performing this assessment we consider both the "design effectiveness"¹ and "operational effectiveness"² of internal control. The explanation of these terms is outlined below. However, it is not the purpose of our assessment to provide you with assurance on internal control in its own right. As such we provide no assurance that our assessment will necessarily identify and detect all matters in relation to internal control.

2 Internal controls

We reviewed the internal controls in place for your key financial and non-financial information systems. Internal controls are the policies and processes that are designed to provide reasonable assurance as to reliability and accuracy of financial and non-financial reporting, as well as compliance with significant legislative requirements. These internal controls are designed, implemented and maintained by the Council and management. Both "design effective" and "operationally effective" internal control is important to minimising the risk of either fraud or misstatement occurring. The responsibility for the effective design, implementation and maintenance of internal control rests with the governing body.

In performing this assessment we have identified areas where we believe the control environment can be improved. These matters are presented below.

2.1 Policy development and review

Recommendations

- implement the recommendations from the Deloitte Shared Business Process Review;
- continue to implement a formal programme of review for policies; and
- ensure staff are able to locate key polices, and are aware of their contents.

Findings

Policies have a number of purposes including enabling the execution of the Council's strategy, ensuring employees clearly understand expectations and consequences for misconduct, influence employee behaviour and support ethical, compliant decision-making.

¹ Control is effective to either prevent or detect a material error in either the financial statements and/or non-financial information. The control is "fit for purpose".

² Control has operated effectively throughout the period tested.

Policies and procedures are most effective when they are up to date and easily available to staff. Periodic reviews ensure that information is current and accurate, the policy is understood, and achieving its intended purpose.

In June 2016, the Council engaged Deloitte to complete a review of the policies and procedures in place for fraud, conflicts of interest, and sensitive expenditure. The detailed findings are presented in their report. We support the findings made by Deloitte, and note consistency with a number of findings we have previously raised.

We draw attention to Deloitte's observation that Council staff were unaware of the fraud policy or how to locate it. With new policies being drafted, or amendments to existing policies being made, the importance of staff awareness and training in the contents of key policies is heightened.

We have also previously raised the currency of policies in past reports to the Council. We provide an update against previous recommendations in Appendix 2 of this report.

Management Comment

Comments noted. A number of policies are in the process of being reviewed/adopted, where appropriate, recommendations from the Deloitte Shared Business Process Review will be incorporated.

2.2 Service performance reporting

The 2016 financial year was the first time that the Council was required to report on the mandatory performance measures developed by the Department of Internal Affairs. The Council measured and reported against a number of new mandatory measures covering water supply, wastewater, stormwater drainage flood protection, and roading activities.

In our previous report to the Council dated 3 November 2016, we identified differences in targets and measures between the annual report to accountability documents, and differences in reported results between source data and the annual report.

These examples were corrected in the final annual report, but highlighted the importance of a quality assurance process being implemented for future annual report processes. A robust quality assurance process should involve both management and the audit committee, and occur prior to the release of the annual report for audit.

We will comment further on service performance reporting, including appropriate quality assurance in our final report to the Council.

Management Comment

Comments noted. Officers have been working to improve the documentation of processes which support the calculation of performance measures.

2.3 Property, plant and equipment reconciliation**Recommendation**

Complete a monthly reconciliation between the fixed asset register and general ledger. The reconciliation should be reviewed by an independent person on a one-up basis.

Finding

As part of our interim audit we reviewed the system in place for property plant and equipment. We identified that currently no reconciliation is being performed between the Council's general ledger and fixed asset register. Regular reconciliation of the fixed asset register and general ledger, ensures both information sources remain complete and accurate for reporting.

Management comment

Council will complete the reconciliation at year end. Going forward as part of month end processes, business unit accountants will review the costs for capitalisation, with reconciliations occurring at year end.

3 Information technology general controls (ITGC)

We performed an ITGC review of relevant Council systems as part of the audit. This review consisted of two parts. The first part was an assessment of entity level controls. These controls are management's control activities in the following areas: IT governance and strategic planning; IT processes, organisation, and relationships; the assessment and management of IT Risks; monitoring and evaluation of performance and the evaluation of internal controls.

The Council has appropriate IT policies and structures in place to mitigate its risks.

The second part of our work was an assessment of the design and operational effectiveness of activity level controls. We assessed the controls are design and operationally effective and can be relied upon for the purposes of our audit.

There were no new areas for improvement identified, the follow up of ITGC matters raised previously is included in Appendix 2 of this report.

4 Summary of recommendations

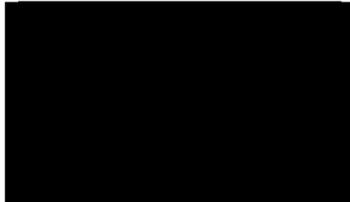
Summary of action taken against previous years' recommendations:

| Number of recommendations from previous years' audits | Current status |
|--|--|
| Two | Matters that have been resolved |
| Four | Progress is being made, but not yet fully resolved |
| One | No progress has been made |

This summary needs to be read in conjunction with the status of recommendations raised in previous years' management reports as detailed at Appendix 2.

Appendix 1: Explanation of priority rating system

Our recommendations for improvement and their priority are based on our assessment of how far short Southland District Council is from a standard that is appropriate for the size, nature, and complexity of its business. We have developed the following ratings for our recommendations:



Needs to be addressed *urgently*

These recommendations relate to a serious deficiency that exposes the District Council to significant risk. Risks could include a material error in the financial statements and the non-financial information; a breach of significant legislation; or the risk of reputational harm.

Necessary

Improvements are necessary

Address at the earliest reasonable opportunity, generally *within 6 months*

These recommendations relate to deficiencies that need to be addressed to meet expected standards of good practice. These include any control weakness that could undermine the system of internal control or create operational inefficiency.

Beneficial

Some improvement required

Address, generally *within 6 to 12 months*

These recommendations relate to deficiencies that result in the District Council falling short of best practice. These include weakness that do not result in internal controls being undermined or create a risk to operational effectiveness. However, in our view it is beneficial for management to address these.

Appendix 2: Status of recommendations

Outstanding matters

| Recommendation | Current status | Priority | Management's proposed action |
|--|--|-----------|--|
| Policies | | | |
| Ensure all policies are up to date and periodically reviewed. | In progress. We understand the Council is currently updating the procurement policy. However, a number of policies still require updating, or review. These include the fraud, vehicles, and conflicts of interest policies. | Necessary | The Procurement, Fraud, Vehicle, and Conflicts of Interest Policies have been put on staff work programmes to be revised this year. A policy review process is in place, with additional resources being obtained to assist. |
| Contract management | | | |
| Develop a formal approach to contract management. Develop a contract management policy. | In progress. The Council is currently in the process of developing a formal organisational wide framework for procurement and contract management. This includes development of a contract management system for the whole organisation to record all contracts held. As part of the Council's organisational review, a separate Contract Administrator role has been set up dedicated to the oversight of contract management. | Necessary | An internal staff secondment is being utilised to develop a business case based, gateway based project management system. Framework design will be completed by 30 June 2017. Implementation will be achieved by Dec 2017. |

| Recommendation | Current status | Priority | Management's proposed action |
|---|---|------------|--|
| Legislative compliance | | | |
| Develop a formal system for legislative compliance. | In progress. There is no formal system for ensuring legislative compliance. | Necessary | Initial work has been completed around developing a legal compliance system. Council staff would appreciate any examples of good practice that Audit NZ may know of. |
| Super user accounts | | | |
| The list of users with access to the domain administrator group should be reviewed and limited only to those system and user accounts that require this access to perform their function. In addition, the built in administrator account password should be changed and usage of the account limited. Good practice is for the password to be changed when IT staff leave or every six months. | In progress. The members of the domain admin group have been reviewed and now contain only authorised IT staff. The password for the built in administrator account has not been changed yet. A review is underway to remove this account and replace it with service accounts. | Necessary | Council has engaged an external firm who has completed a security audit and the changes recommended by Audit NZ (limited membership to administrator accounts) will be completed progressively over the next 12 months. This is being staged as the process of removing and replacing accounts will affect most applications used by Council. |
| Formal IS agreement | | | |
| Develop a formal agreement with Invercargill City Council for the information systems services they provide. | No progress has been made. | Beneficial | Whilst no formal IS Agreement exists, Council as part of the Core Systems Review will be reviewing the delivery of the Infor Pathway and JD Edwards application currently operating from Invercargill City Council. Some initial discussion with ICC around the delivery of the JDE Application have occurred with some technical detail being collected for future decision around. |

Matters that have been resolved

| Recommendation | Outcome |
|--|---|
| <p>Purchase order system Complete an independent review of purchase orders raised and authorised by the same person. Review core data changes made by administration users.</p> | <p>A monthly report is produced and all purchase orders that have been raised and approved by the same person are now reviewed by the financial accountant.</p> |
| <p>Creditor masterfile changes All masterfile changes should be independently reviewed and signed off.</p> | <p>A masterfile change report is now produced and independently reviewed.</p> |

Health and Safety

Record No: R/17/5/10791
Author: Janet Ellis, People and Capability Manager
Approved by: Steve Ruru, Chief Executive

Decision Recommendation Information

Purpose

To provide an update on Health and Safety activity within the Southland District Council

Recommendation

That the Finance and Audit Committee:

- a) **Receives the report titled “Health and Safety” dated 27 May 2017.**

Content

Finance and Audit Committee Responsibilities and Delegated Authority

- 1 The Finance and Audit Committee has responsibility for:
 - Reviewing, monitoring and making recommendations to Council on Southland District Council’s health and safety risk management framework and policies to ensure Council has clearly set out its commitments to manage health and safety matters effectively.
 - Reviewing and making recommendations to Council for achieving health and Safety objectives.
 - Reviewing and recommending for Council approval targets for health and safety performance and assessing performance against those targets.
 - Monitoring Council compliance with health and safety policies and relevant applicable law.
 - Ensuring that the systems used to identify and manage health and safety risk are fit-for-purpose, being effectively implemented, regularly reviewed and continuously improved.
 - Seeking assurance that Council is effectively structured to manage health and safety risks.
 - Reviewing health and safety related incidents and consider appropriate actions to minimise the risk of recurrence.
 - Making recommendations to Council regarding the appropriateness of resources available for operating the health and safety management systems and programmes.

Due Diligence Responsibilities

- 2 In addition to the responsibilities of the Finance and Audit Committee all Councillors have due diligence requirements. Councillors are required to keep up to date with health and safety matters, understand the nature of the business, audit its hazards and risks, ensure there are appropriate reporting and investigation processes in place and monitor and verify that appropriate actions are being taken.

Health and Safety Gap Analysis

- 3 In February 2017, Council contracted Simpson Grierson to undertake a Health and Safety Gap Analysis. The analysis included a review of Southland District Council's Health and Safety Management System, discussions with key operational leaders and visits to operational locations and discussions with workers and key contractors. The result of the Gap Analysis was a written report detailing findings and recommendations for improvement. The report was tabled at the March 2017 Finance and Audit Committee Meeting.
- 4 Following the March Finance and Audit committee meeting, a plan, including objectives and targets has been developed and presented.
- 5 A formal Action Plan identifying all of the improvement initiatives identified and outlining a programme of work to address these is under development and will be presented to a future meeting of the Committee.

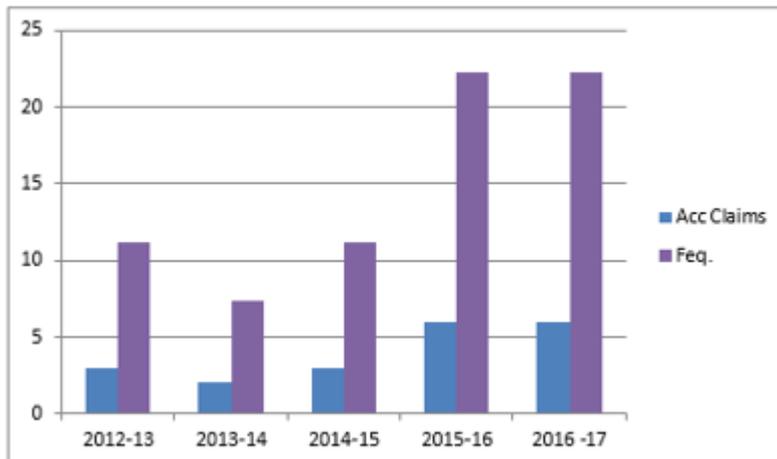
Review of Health and Safety related incidents

Accidents/Incidents/Near Misses

- 6 As part of the Health and Safety Plan for 2017/2018 we will be ensuring that we have consistency of reporting on both lead and lag indicators. In the meantime please find below a summary of the accidents/incidents/near misses for the first four months of the year from 1 January 2017 to 31 April 2017.

| Key Performance Indicator | 1 January 2017 – 30 April 2017 |
|---|-----------------------------------|
| Medical Treatment intervention required | 2 |
| Lost time due to injury | 1 |
| Near Misses | 4 |

- 7 The Lost time incident was the serious motor vehicle accident in January 2017 where an Animal Control Officer suffered a broken arm and had an overnight stay in hospital.
- 8 Also as part of the putting together the Health and Safety Plan 2017/2018 analysis was done with the Health and Safety Consultant from Simpson Grierson, Terry Johnson.
- 9 His recommendation was that we use current injury rates as a consistent lag indicator. The information comes from ACC data supplied to Southland District Council and is a measure that can be used to benchmark against contemporary organisations.
- 10 Please find below injury rates since 2012. While most of the injuries recorded are minor in nature we can see an increase in the number of work injuries in the last two years. The majority of contemporary organisations, such as Fonterra use a less than 5 frequency rate as a benchmark target.
- 11 It is expected that with the implementation of the plan and framework a decrease in the number of ACC claims would be seen.



Critical Risks

- 12 Work continues on managing our critical risks at Southland District Council. This will also be reviewed as part of the update in the Governance Framework. The new Risk and Management procedure will outline clearly how Southland District Council will identify and manage its most critical risks, including the development of a control plan and assessment against the effectiveness of these controls.
- 13 Currently, contractors who have been on the pre-approved list for over two years are being asked to supply updated health and safety information to us. Information will include statistics from them on their health and safety incidents and what their key risks are. This will help us to clearly articulate what the biggest risks are for our contractors.
- 14 Work is underway with a review of the Motor Vehicle policy. As part of this policy review a focus is being placed on ensuring that health and safety is a predominant factor in the procurement of vehicles.
- 15 The process and how Southland District Council handles its more difficult customers is being reviewed and updated.

Attachments

There are no attachments for this report.

Exclusion of the Public: Local Government Official Information and Meetings Act 1987

Recommendation

That the public be excluded from the following part(s) of the proceedings of this meeting.

C9.1 Risk Register - June 2017 update

C9.2 Corporate Performance Report - February 2017 full report and variance report

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

| General subject of each matter to be considered | Reason for passing this resolution in relation to each matter | Ground(s) under section 48(1) for the passing of this resolution |
|--|---|--|
| Risk Register - June 2017 update | <p>s7(2)(e) - The withholding of the information is necessary to avoid prejudice to measures that prevent or mitigate material loss to members of the public.</p> <p>s7(2)(i) - The withholding of the information is necessary to enable the local authority to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations).</p> | That the public conduct of the whole or the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists. |
| General subject of each matter to be considered | Reason for passing this resolution in relation to each matter | Ground(s) under section 48(1) for the passing of this resolution |
| Corporate Performance Report - February 2017 full report and variance report | <p>s7(2)(c)(i) - The withholding of the information is necessary to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to prejudice the supply of similar information or information from the same source and it is in the public interest that such information should continue to be supplied.</p> <p>s7(2)(h) - The withholding of the information is necessary to enable the local authority to carry out, without prejudice or disadvantage, commercial activities.</p> | That the public conduct of the whole or the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists. |