



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

**Date:** Monday, 22 June 2020  
**Time:** 9am  
**Meeting Room:** Council Chamber  
**Venue:** 15 Forth Street  
Invercargill

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## **Finance and Assurance Committee Agenda OPEN**

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### **MEMBERSHIP**

**Chairperson** Bruce Robertson  
Mayor Gary Tong  
**Councillors** Don Byars  
John Douglas  
Paul Duffy  
Julie Keast  
**Deputy Chair** Ebel Kremer

### **IN ATTENDANCE**

**Chief Financial Officer** Anne Robson  
**Committee Advisor** Fiona Dunlop

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**[www.southlanddc.govt.nz](http://www.southlanddc.govt.nz)**

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**Note:** The reports contained within this agenda are for consideration and should not be construed as Council policy unless and until adopted. Should Members require further information relating to any reports, please contact the relevant manager, Chairperson or Deputy Chairperson.



## Terms of Reference – Finance and Assurance Committee

<b>TYPE OF COMMITTEE</b>	Council standing committee
<b>RESPONSIBLE TO</b>	Council
<b>SUBCOMMITTEES</b>	None
<b>LEGISLATIVE BASIS</b>	Committee constituted by Council as per schedule 7, clause 30 (1)(a), LGA 2002. Committee delegated powers by Council as per schedule 7, clause 32, LGA 2002.
<b>MEMBERSHIP</b>	Mayor, three councillors and one external appointee
<b>FREQUENCY OF MEETINGS</b>	Quarterly or as required
<b>QUORUM</b>	Three members
<b>SCOPE OF ACTIVITIES</b>	<p>The Finance and Assurance Committee is responsible for:</p> <ul style="list-style-type: none"> <li>ensuring that Council has appropriate financial, risk management and internal control systems in place that provide: <ul style="list-style-type: none"> <li>an overview of the financial and non-financial performance of the organisation</li> <li>effective management of potential opportunities and adverse effects</li> <li>reasonable assurance as to the integrity and reliability of Council's financial and non-financial reporting.</li> </ul> </li> <li>exercising active oversight of information technology systems</li> <li>exercising active oversight of Council's health and safety policies, processes, compliance, results and frameworks</li> <li>relationships with external, internal auditors, banking institutions and insurance brokers.</li> </ul> <p>The Finance and Assurance Committee will monitor and assess the following:</p> <ul style="list-style-type: none"> <li>the financial and non-financial performance of Council against budgeted and forecasted outcomes</li> <li>consideration of forecasted changes to financial outcomes</li> <li>Council's compliance with legislative requirements</li> <li>Council's risk management framework</li> <li>Council's control framework</li> <li>Council's compliance with its treasury responsibilities</li> <li>Council's compliance with its Fraud Policy.</li> </ul>
<b>DELEGATIONS</b>	<p>The Finance and Assurance Committee shall have the following delegated powers and be accountable to Council for the exercising of these powers.</p> <p>In exercising the delegated powers, the Finance and Assurance Committee will operate within:</p>

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

The Finance and Assurance 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 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 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 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 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 recommendations to 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 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 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.
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**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 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 \$2 million or the value over the term of the contract exceeds \$2 million.

**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) recommend to Council treasury policies.

**Fraud Policy**

- a) receive and consider reports relating to the investigation of suspected fraud
- b) monitor the implementation of the Fraud Policy.

**Power to Recommend**

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

- a) policies relating to risk management, rating, loans, funding and purchasing

	<p>b) accounting treatments, changes in generally accepted accounting practice, and new accounting and reporting requirements</p> <p>c) the approval of financial and non-financial performance statements including adoption of the Annual Report, Annual Plans and Long Term Plans.</p> <p>The Finance and Assurance Committee is responsible for considering and making recommendations to the Services and Assets Committee on business cases completed under the 'Power to Act' section above.</p>
<b>FINANCIAL DELEGATIONS</b>	<p>Council authorises the following delegated authority of financial powers to Council committees in regard to matters within each committee's jurisdiction.</p> <p><b>Contract Acceptance:</b></p> <ul style="list-style-type: none"> <li>accept or decline any contract for the purchase of goods, services, capital works or other assets where the total value of the lump sum contract does not exceed the sum allocated in the Long Term Plan/Annual Plan and the contract relates to an activity that is within the scope of activities relating to the work of the Finance and Assurance Committee</li> <li>accept or decline any contract for the disposal of goods, plant or other assets other than property or land that is provided for in the Long Term Plan</li> </ul> <p><b>Budget Reallocation.</b></p> <p>The committee is authorised to reallocate funds from one existing budget item to another. Reallocation of this kind must not impact on current or future levels of service and must be:</p> <ul style="list-style-type: none"> <li>funded by way of savings on existing budget items</li> <li>within the jurisdiction of the committee</li> <li>consistent with the Revenue and Financing Policy.</li> </ul>
<b>LIMITS TO DELEGATIONS</b>	<p>Matters that must be processed by way of recommendation to Council include:</p> <ul style="list-style-type: none"> <li>amendment to fees and charges relating to all activities</li> <li>powers that cannot be delegated to committees as per the Local Government Act 2002 and sections 2.4 and 2.5 of this manual.</li> </ul> <p>Delegated authority is within the financial limits in section 9 of this manual.</p>
<b>RELATIONSHIPS WITH OTHER PARTIES</b>	<p>The committee shall maintain relationships with each of the nine community boards.</p> <p>Professional advisors to the committee shall be invited to attend all meetings of the committee including:</p> <ul style="list-style-type: none"> <li>external auditor</li> <li>internal auditor/risk advisor (if appointed)</li> <li>chief financial officer.</li> </ul>

	<p>At each meeting, the chairperson will provide the external auditor and the internal auditor/risk advisor (if appointed) with an opportunity to discuss any matters with the committee without management being present. The chairperson shall request the chief executive and staff in attendance to leave the meeting for the duration of the discussion. The chairperson will provide minutes for that part of the meeting.</p> <p>The chief executive and the chief financial officer shall be responsible for drawing to the committee's immediate attention any material matter that relates to the financial condition of Council, material breakdown in internal controls and any material event of fraud.</p> <p>The committee shall provide guidance and feedback to Council on financial performance, risk and compliance issues.</p> <p>The committee will report to Council as it deems appropriate but no less than twice a year.</p>
<b>CONTACT WITH MEDIA</b>	<p>The committee chairperson is the authorised spokesperson for the committee in all matters where the committee has authority or a particular interest.</p> <p>Committee members, including the chairperson, do not have delegated authority to speak to the media and/or outside agencies on behalf of Council on matters outside of the committee's delegations.</p> <p>The chief financial officer will manage the formal communications between the committee and its constituents and for the committee in the exercise of its business. Correspondence with central government, other local government agencies or other official agencies will only take place through Council staff and will be undertaken under the name of Southland District Council.</p>

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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 no requests for leave of absence had been received.

**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](http://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 Assurance Committee, 30 April 2020



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## Finance and Assurance Committee

### OPEN MINUTES

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Minutes of a meeting of Finance and Assurance Committee held via Zoom (digital technology) on Thursday, 30 April 2020 at 9am (9am – 10.31am, 10.42am – 12.17pm, 12.49pm – 2.18pm, 2.25pm – 3.50pm (Public excluded 11.11am – 12.17pm, 12.49pm – 2.18pm, 2.25pm – 3.50pm)).

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#### **PRESENT**

<b>Chairperson</b>	Bruce Robertson Mayor Gary Tong
<b>Councillors</b>	Don Byars John Douglas Paul Duffy (9am – 10.31am, 10.42am – 12.17pm, 12.49pm – 1.25pm) Julie Keast Ebel Kremer

#### **IN ATTENDANCE**

Councillor Ruddenklau (9am -10.31am)  
Chief Executive – Steve Ruru  
Chief Financial Officer – Anne Robson  
Committee Advisor – Fiona Dunlop



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**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**

**Resolution**

Moved Chairperson Robertson, seconded Deputy Chairperson Kremer **and resolved:**

**That the Finance and Assurance Committee confirms the minutes of the meeting held on 13 December 2019 as a true and correct record of that meeting.**

**Reports**

**7.2 Internal Audit Terms of Reference - Cyber Health Check**

**Record No: R/20/3/5910**

Chief Financial Officer – Anne Robson was in attendance for this item.

Crispin Deans – Deloitte's Director Risk Advisory was in attendance via Zoom for this item.

Miss Robson advised that the purpose of the report was to consider and agree the terms of reference for the second of six internal audit for a cyber-security health check.

The committee noted that Deloitte's had been appointed as Council's Internal Auditor in 2018 and as part of the appointment the committee had asked Deloitte to work with staff and the committee to form a three year internal audit work programme.

### **Resolution**

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

**That the Finance and Assurance Committee:**

- a) **Receives the report titled "Internal Audit Terms of Reference - Cyber Health Check" dated 1 April 2020.**
- 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) **Approve the Terms of Reference (as attached to the officers report) for the Cyber Security Health Check.**

### **7.3 Internal Audit Report, Procure to Pay Processes**

**Record No: R/20/3/6295**

Chief Financial Officer – Anne Robson was in attendance for this item.

David Seath – Deloitte's Partner Risk Advisory was in attendance via Zoom for this item.

Miss Robson advised that the purpose of the report was to report to the committee on the Deloitte's completed first audit of the Council's procure to pay processes.

The committee noted that Deloitte's completed the first audit in October 2019 and reports the findings and also includes Council management responses. The report found that the Council's procure to pay processes are adequately controlled and as part of the audit Deloitte have identified a number of examples of good practice as well as noting five areas for improvement.

### **Resolution**

Moved Deputy Chairperson Kremer, seconded Cr Keast **and resolved:**

**That the Finance and Assurance Committee:**

- a) **Receives the report titled "Internal Audit Report, Procure to Pay Processes" dated 1 April 2020.**
- b) **Requests staff report back to the August 2020 committee meeting the status of the outstanding points**

## 7.1 Finance & Assurance Committee Work plan for the year ended 30 June 2020

**Record No: R/20/3/6291**

Chief Financial Officer – Anne Robson was in attendance for this item.

### **Resolution**

Moved Chairperson Robertson, seconded Cr Keast **and resolved:**

**That the Finance and Assurance Committee:**

- a) **Receives the report titled “Finance & Assurance Committee Work plan for the year ended 30 June 2020” dated 1 April 2020.**
- b) **Notes the changes made to the Finance and Audit Committee Work plan for the year ended 30 June 2020 since the last meeting.**

## 7.5 Health and Safety Update

**Record No: R/20/3/5457**

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

Mrs Ellis advised that the purpose of the report was to provide and update on the health and safety related incidents and activity.

### **Resolution**

Moved Chairperson Robertson, seconded Deputy Chairperson Kremer **and resolved:**

**That the Finance and Assurance Committee:**

- a) **Receives the report titled “Health and Safety Update” dated 16 March 2020.**

## 7.6 Monthly Financial Report - March 2020

**Record No: R/20/4/9681**

Project Accountant – Dee Patel was in attendance for this item.

Mrs Patel advised that the purpose of the report was to provide the Committee with an overview of the financial results to date by the nine activity groups of Council, as well as the financial position, and the statement of cash flows for the nine months to 31 March 2020.

### **Resolution**

Moved Chairperson Robertson, seconded Deputy Chairperson Kremer **and resolved:**

**That the Finance and Assurance Committee:**

- a) **Receives the report titled “Monthly Financial Report - March 2020” dated 24 April 2020.**

## 7.7 Forecasted Financial Position for the year ending 30 June 2020

**Record No: R/20/3/5139**

Management Accountant – Joanie Nel was in attendance for this item.

Mrs Nel advised that the purpose of the report was to update the committee of the expected year-end financial result compared to the published 2019/2020 Annual Plan and seek the committee's recommendation to Council to approve the resulting forecasted position.

### **Resolution**

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

**That the Finance and Assurance Committee:**

- a) **Receives the report titled "Forecasted Financial Position for the year ending 30 June 2020" dated 24 April 2020.**
- 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 approve the changes as detailed in appendix A of the officer report.**
- e) **Notes the forecasted changes to Council's year-end financial performance and position as detailed in appendices B and C of the officers report.**
- f) **Recommends to Council that it approves the deletion of the following 2019-20 projects:**

Business Unit	Project	Amount
Riverton	Project to investigate stormwater discharge around Soundshell area due to blocked outlets	\$10,000
Stewart Island Jetties	Golden Bay Wharf rebuild project	\$233,812
Te Anau	Te Anau Stormwater condition assessment project terminated	\$12,834
Te Anau	Project to Improve Link Te Anau – Manapouri trail and lakefront	\$10,220
SIESA	Replacement Generator	\$110,000
SIESA	Replace circuit breakers	\$80,000

<b>SIESA</b>	<b>Network upgrade</b>	<b>\$20,440</b>
<b>SIESA</b>	<b>Exhaust system renewal/service</b>	<b>\$20,000</b>
<b>SIESA</b>	<b>Replace one transformer</b>	<b>\$35,000</b>
<b>SIESA</b>	<b>Gates, signs, fence/ Security</b>	<b>\$30,000</b>
<b>SIESA</b>	<b>Ringfeed project Stage 3</b>	<b>\$31,000</b>
<b>SIESA</b>	<b>Ringfeed project Stage 4</b>	<b>\$56,000</b>
<b>SIESA</b>	<b>Ringfeed project Stage 5</b>	<b>\$32,193</b>
<b>SIESA</b>	<b>Service SCADA control</b>	<b>\$25,000</b>
<b>SIESA</b>	<b>Upgrade SCADA control</b>	<b>\$10,000</b>

- g) **Recommends Council approve the following unbudgeted expenditure and funding source:**

<b>Business Unit</b>	<b>Expense</b>	<b>Amount</b>	<b>Funding Source</b>
<b>Customer Service</b>	<b>Postage</b>	<b>\$36,720</b>	<b>District Ops Reserve</b>
<b>District Water</b>	<b>Resource Consents</b>	<b>\$29,560</b>	<b>Short term Internal Loan</b>
<b>District Water</b>	<b>Maintenance unplanned</b>	<b>\$110,000</b>	<b>Short term Internal Loan</b>
<b>Wheelie bins</b>	<b>Waste Disposal</b>	<b>\$57,026</b>	<b>Waste management reserve</b>
<b>Roading</b>	<b>Emergency Re-instatement of roads due to flooding</b>	<b>\$1,825,000</b>	<b>Roading rate reserve, NZTA</b>
<b>Water Supply Manapouri</b>	<b>Water lateral renewals</b>	<b>\$25,000</b>	<b>Internal Loan</b>
<b>Manapouri Airport</b>	<b>Civil Aviation Authority Compliance costs</b>	<b>\$90,000</b>	<b>Manapouri-Te Anau Airport Reserve</b>
<b>Sewerage Scheme Otautau</b>	<b>SCADA renewals</b>	<b>\$54,260</b>	<b>Internal Loan</b>
<b>Limehills</b>	<b>Community Centre Kitchen upgrade</b>	<b>\$7,378</b>	<b>Limehills Community Centre reserve</b>

- j) **Recommends to Council to approve to defer the following projects to the 2020/21 financial year:**

Business Unit	Expense	Amount	Funding Source
District Library	Library RFID project and refurbishment at Winton	\$382,800	Internal Loan
District Water	District Water Monitoring	\$131,478	Internal Loan
Buildings Te Anau	Te Anau Library Project deferred to 20/21	\$33,587	Property Development Reserve
Sewerage scheme Ohai	New UV/Treatment Plant upgrade	\$54,225	Internal Loan
Stewart Island	Trail Park Pavilion toilets, project deferred to 20/21	\$11,314	Internal Loan
Te Anau	Metering District Metered Areas	\$101,500	Internal Loan
Te Anau Sewerage scheme	Scheme capacity upgrade (demand portion)	\$4,000,000	Development Contributions and Internal Loan
Thornbury Streetworks	Kerb and channel Foster Road	\$48,365	Internal Loan and Thornbury General Reserve
Waikawa Hall	Exterior Reclad of Hall	\$25,000	Internal Loan and Waikawa-Niagara Community Centre Reserve
Streetworks Otautau	Footpath upgrade	\$12,492	Rates and Internal Loan
Information Management	Core system review	\$350,000	Internal Loan

## 7.8 Finance and Assurance Committee Workplan for the year ended 30 June 2021

**Record No: R/20/3/6296**

Chief Financial Officer – Anne Robson was in attendance for this item.

### **Resolution**

Moved Chairperson Robertson, seconded Cr Douglas **and resolved:**

**That the Finance and Assurance Committee:**

- a) **Receives the report titled “Finance and Assurance Committee Workplan for the year ended 30 June 2021” dated 17 March 2020.**
- b) **Adopts the Finance and Audit Committee Work plan for the year ended 30 June 2021.**

#### **7.9 Interim Performance Report - Period two - 1 July 2019 to 29 Feb 2020**

**Record No: R/20/3/8103**

Planning and Performance Reporting Analyst – Shannon Oliver was in attendance for this item.

Miss Oliver advised that the purpose of the report was to provide the committee with the results of the interim performance report for the period 1 July 2019 to 29 February 2020.

##### **Resolution**

Moved Chairperson Robertson, seconded Cr Duffy **and resolved:**

**That the Finance and Assurance Committee:**

- a) **Receives the report titled “Interim Performance Report - Period two - 1 July 2019 to 29 Feb 2020” dated 24 April 2020.**
- 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.**

The meeting adjourned for morning tea at 10.31am and reconvened at 10.42am.

(Councillor Ruddenklau left the meeting at 10.31am.)

#### **7.4 Annual Report Audit Plan for year ending 30 June 2020**

**Record No: R/20/2/4487**

Financial Accountant – Sheree Marrah was in attendance for this item.

Mrs Marrah advised that the purpose of the report was for the committee to approve the Annual Report Audit Plan as proposed by Audit New Zealand for the year ending 30 June 2020.

Audit NZ Audit Director – Dereck Ollsson was also in attendance via Zoom for this item. Mr Ollsson explained the process that the Auditors would be taking for the annual report.

During discussion the committee were advised that there would be an increase in the fee that the Audit NZ charges for their services.

**Resolution**

Moved Cr Douglas, seconded Deputy Chairperson Kremer **and resolved:**

**That the Finance and Assurance Committee:**

- a) **Receives the report titled “Annual Report Audit Plan for year ending 30 June 2020” dated 16 March 2020.**
- 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) **Accepts the Annual Report Audit Plan for the year ending 30 June 2020, as set out in Attachment A of the officers report.**



## Public Excluded

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

#### Resolution

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

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

**C8.1 Annual Report - Management Report from Audit NZ for the year ended 30 June 2019**

**C8.2 Quarterly risk management report - March 2020**

**C8.3 Operational Risk Report**

**C8.4 Te Anau Wastewater Upgrade Update and Request for Unbudgeted Expenditure**

**C8.5 Te Anau Wastewater Upgrade – Recommendation to Award Membrane Filtration Plant Contract (19/46)**

**C8.6 Te Anau Wastewater Upgrade – Recommendation to Award Contract for Kepler Dripline Installation**

**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
Annual Report - Management Report from Audit NZ for the year ended 30 June 2019	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.
Quarterly risk management report - March 2020	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.  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.
Operational Risk Report	s6(b) - The making available of the information would be likely to endanger the safety of a person.  s7(2)(i) - The withholding of the information is necessary to enable the local authority to carry on, 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 result in the disclosure of information for which good reason for withholding exists.

	negotiations (including commercial and industrial negotiations).	
Te Anau Wastewater Upgrade Update and Request for Unbudgeted Expenditure	s7(2)(h) - The withholding of the information is necessary to enable the local authority to carry out, without prejudice or disadvantage, commercial activities.	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.
Te Anau Wastewater Upgrade – Recommendation to Award Membrane Filtration Plant Contract (19/46)	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.
Te Anau Wastewater Upgrade – Recommendation to Award Contract for Kepler Dripline Installation	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, Group Manager, Environmental Services, Group Manager, Services and Assets, Group Manager, Community and Futures, Chief Financial Officer, People and Capability Manager, Group Manager, Customer Delivery, 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 C8.1 Annual Report - Management Report from Audit NZ for the year ended 30 June 2019, C8.2 Quarterly risk management report - March 2020, C8.3 Operational Risk Report, C8.4 Te Anau Wastewater Upgrade Update and Request for Unbudgeted Expenditure, C8.5 Te Anau Wastewater Upgrade – Recommendation to Award Membrane Filtration Plant Contract (19/46) and C8.6 Te Anau Wastewater Upgrade – Recommendation to Award Contract for Kepler Dripline Installation. 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.

That Planning and Reporting Analyst – Shannon Oliver, Strategy and Policy Manager – Michelle Stevenson and Associate Audit Director with Audit NZ – Dereck Ollsson be permitted to remain at this meeting, after the public has been excluded, because of their knowledge of the item C8.1 Annual Report - Management Report from Audit NZ for the year ended 30 June 2019. 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.

That Policy Analyst – Jane Edwards and Strategy and Policy Manager – Michelle Stevenson be permitted to remain at this meeting, after the public has been excluded, because of their knowledge of the item C8.2 Quarterly risk management report - March 2020. 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.

That the Strategic Manager Water and Waste – Ian Evans and Senior Project Accountant – Susan McNamara be permitted to remain at this meeting, after the public has been excluded, because of their knowledge of the items C8.4 Te Anau Wastewater Upgrade Update and Request for Unbudgeted Expenditure, C8.5 Te Anau Wastewater Upgrade – Recommendation to Award Membrane Filtration Plant Contract (19/46) and C8.6 Te Anau Wastewater Upgrade – Recommendation to Award Contract for Kepler Dripline Installation. 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.

The public were excluded at 11.11am.

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 3.50pm.

CONFIRMED AS A TRUE AND CORRECT RECORD AT A  
MEETING OF THE FINANCE AND ASSURANCE  
COMMITTEE HELD ON THURSDAY 30 APRIL 2020.

**DATE:**.....

**CHAIRPERSON:**.....



## Finance & Assurance Committee Work plan for the year ended 30 June 2020

Record No: R/20/6/15106  
Author: Anne Robson, Chief Financial Officer  
Approved by: Steve Ruru, Chief Executive

☐ Decision ☐ Recommendation ☒ Information

### Purpose

- 1 To update the Committee on the status of the work programme discussed and agreed at the 26 March 2019 meeting for the financial year ending 30 June 2020.
- 2 As noted at the meeting the adoption of the work plan does not preclude the Committee or staff from including additional reports as and when required.
- 3 As the year proceeds the work plan will be updated to incorporate the actual dates reports are being presented where that differs to the work plan adopted. For the committees information the “X” in red shows the date the report was presented, where this differs from what was approved in the work plan or if it is a new report that will be presented on an annual basis. If there is a black “X” on the same line as a red “X”, the black “X” indicates the date agreed by the committee. The “X” in green reflects changes identified to the ongoing work plan since it was adopted.
- 4 This meeting includes all the reports indicated in this plan for this meeting date.
- 5 In addition to the reports noted in the timetable, this agenda also includes an
  - operational risk report
  - health and safety plan
  - annual report audit proposal 2020, 2021 and 2022
  - annual report audit engagement 2020, 2021 and 2022
  - fraud risk assessment actions
  - NZTA audit report.

### Recommendation

**That the Finance and Assurance Committee:**

- a) **Receives the report titled “Finance & Assurance Committee Work plan for the year ended 30 June 2020” dated 16 June 2020.**
- b) **Notes the changes made to the Finance and Audit Committee Work plan for the year ended 30 June 2020 since the last meeting.**

### Attachments

- A Finance & Assurance Committee 2019-20 meeting content (June 2020 meeting) [↗](#)

Finance and Audit Committee Workplan to 30 June 2020

Content	29 August 2019	23 September 2019	13 December 2019	30 April 2020	22 June 2020
Annual Plan – Timetable	X	X			
Annual Plan – Assumptions, policies and principles		X	X		
Annual Plan – Recommend final to Council					X
Risk Report		X	X	X	X
Health & Safety Report	X	X	X	X	X
Health and Safety Plan					X
Financial Report	X		X	X	X
Annual Report – Audit Arrangements Letter				X	
Annual Report – Audit Proposal 2020,2021,2022					X
Annual Report – Audit Engagement 2020,2021,2022					X
Annual Report - Timetable					X
Annual Report - Policies					X
Annual Report – Interim audit Report					X
Annual Report – Agree report ready for audit	X				
Annual Report – Final audit mgmt report		X	X	X	
Annual Report – Recommend adoption by Council		X			
Analysis of Actual results to Forecast		X			
Programme of Projects for 2019/20 including projects proposed to be C/F from 18/19		X			
Information Technology Infrastructure update for 2019/20	X				
Core System Review Project – Work Program and unbudgeted expenditure report	X				
Fraud Risk Assessment Actions	X				X
SDC's Property Register – June 2019	X				
Forestry Investment		X			
Forecast Financial Position			X	X	
Interim Performance Report	X		X	X	
Internal Audit		X		X	
Insurance - Insurance renewal					X
Operational Risk Report		X	X	X	X
Determine Finance & Audit Meeting Content				X	
Other – Reports on projects over \$2million					
Other External Audits – Building Control					
Other External Audits – Roading					X

## Engagement Letter - Limited Independent Assurance Report of the debenture trust deed

Record No: R/20/5/11656  
Author: Sheree Marrah, Financial Accountant  
Approved by: Anne Robson, Chief Financial Officer

☒ Decision ☐ Recommendation ☐ Information

### Purpose

- 1 To provide an overview of and seek authorisation of Audit New Zealand's (Audit NZ) engagement letter for the limited independent assurance report of Council's debenture trust deed.

### Executive Summary

- 2 Audit NZ requires Council to confirm the terms of its engagement for the limited independent assurance report of Council's debenture trust deed, by way of an engagement letter.
- 3 This letter is required to be signed by the Mayor and returned to Audit NZ to confirm Council's acceptance of the engagement terms.
- 4 A copy of Audit NZ's engagement letter and associated documents are included as Attachment A.

### Recommendation

**That the Finance and Assurance Committee:**

- a) **Receives the report titled "Engagement Letter - Limited Independent Assurance Report of the debenture trust deed" dated 16 June 2020.**
- 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) **Authorises the Mayor to sign the Audit New Zealand engagement letter for the limited independent assurance report of the debenture trust deed on Council's behalf.**

### Background

- 5 Historically the assurance report of the debenture trust deed was included as part of the Council's engagement letter for the annual report audit. However since 2018, Audit NZ now require a separate engagement letter to be signed for the completion of this work. The cost of undertaking this work is in addition to the annual report audit fee.

- 6 The debenture trust was established in 2009 with assistance from Simpson Grierson in order to give Council a broader range of options for sourcing long term external funding. This is an established market security for lenders and similar trust deeds exist for various other Councils.
- 7 Perpetual Trust Limited (now trading as Covenant Trustee Services Limited (Covenant)) were appointed to act as Trustee under the debenture Trust deed for the benefit of stockholders. They also act as a supervisor for Council debt matters.
- 8 Under Section 12.2.6 of the debenture trust deed between Council and Covenant, Council are required to provide an independent auditors report on an annual basis.
- 9 The letter of engagement outlines the scope, terms, responsibilities and logistics of the engagement for the year ended 30 June 2020.
- 10 The engagement letter contains the following sections:
- *scope of the engagement* – outlines the extent of the work to be undertaken by Audit NZ for this engagement.
  - *scope of the Council's responsibilities* - outlines Council's responsibilities in relation to the information to support the independent review of the trust deed.
  - *scope of the Trustee's responsibilities* - outlines Covenant Trustee Services Limited's responsibilities as the Trustee in relation to the trust deed.
  - *scope of the Auditor's responsibilities under the trust deed* - outlines Audit NZ's responsibilities as the auditor in relation to the trust deed.
  - *timetable* - the work will be completed concurrently with Council's statutory annual report audit, with sign off occurring soon after the adoption of Council's annual report.
  - *restriction on use and distribution of the report* - restricts the use of the Audit NZ report for the sole purpose of meeting the requirements of clause 12.2.6 of the trust deed.
  - *fees* - the fee for the trust deed limited independent assurance engagement is estimated to be \$4,000 (GST exclusive).
  - *supporting documentation required* – the information required to be provided by Council for this engagement is included in Appendix 3 of the letter.
  - *agreement* - Audit NZ require the Mayor and a representative from Covenant Trustee Services Limited (as Trustee) to sign this letter to confirm their acceptance of the terms in the engagement letter. You will note, from Attachment A, that Igor Viner has already signed this letter on behalf of Covenant Trustee Services Limited.
- 11 A copy of the engagement letter is attached for your information.
- 12 Included as Appendix 1 of Audit NZ's engagement letter is a draft unqualified limited independent assurance report which will be issued to Council at the conclusion of the engagement (subject to successfully completion of the necessary fieldwork).



### **Issues**

- 13 No issues have been identified, the terms of the engagement are consistent with prior years.

### **Factors to Consider**

#### **Legal and Statutory Requirements**

- 14 Under Section 12.2.6 of the of the debenture trust deed between Southland District Council and Covenant Trustee Services Limited, Council are required to provide an auditor's report on the compliance with the debenture trust deed for the year ended 30 June 2020.

#### **Community Views**

- 15 This matter has no impact on community views.

#### **Costs and Funding**

- 16 The cost of the Limited Independent Assurance Report of the debenture trust deed is estimated to be \$4,000 (GST excl). Council has allowed for this cost within the annual audit fees budget.

#### **Policy Implications**

- 17 There are no policy implications.

### **Analysis of Options**

#### **Options Considered**

- 18 There are two options to be considered in this report as outlined below.

#### **Option 1 – Accept the terms of Audit NZ's engagement letter for the Limited Independent Assurance Report in respect of the debenture trust deed.**

<i>Advantages</i>	<i>Disadvantages</i>
<ul style="list-style-type: none"><li>timely receipt of the Limited Independent Assurance Report for Council's debenture trust deed.</li><li>meet our obligation to provide an independent auditor's report under Section 12.2.6 of the debenture trust deed.</li></ul>	<ul style="list-style-type: none"><li>no disadvantages.</li></ul>

**Option 2 – Do not accept the terms of Audit NZ’s engagement letter for the Limited Independent Assurance Report in respect of the debenture trust deed.**

<i>Advantages</i>	<i>Disadvantages</i>
<ul style="list-style-type: none"><li>• If the committee want to make significant changes these can be discussed with Audit NZ prior to signing.</li></ul>	<ul style="list-style-type: none"><li>• Audit NZ will be unable to provide the Limited Independent Assurance Report for Council’s debenture trust deed.</li><li>• Council will fail to meet its obligation to provide an independent auditor’s report under Section 12.2.6 of the debenture trust deed.</li></ul>

**Assessment of Significance**

- 19 This matter is not considered significant in terms of Council’s significance and engagement policy.

**Recommended Option**

- 20 Option 1 - Accept the terms of Audit NZ’s engagement letter for the Limited Independent Assurance report in respect of the debenture trust deed.

**Next Steps**

- 21 Mayor Tong will sign the engagement letter on behalf of Council and the signed letter will be returned to Audit NZ. Audit NZ will undertake their fieldwork for this engagement in late September/early October 2020.

**Attachments**

- A Debenture Trust Deed Engagement Letter from Audit NZ for the year ended 30 June 2020 [↓](#)



AUDIT NEW ZEALAND  
Mana Arotake Aotearoa

Level 1, 399 Moray Place  
PO Box 232, Dunedin 9054

19 May 2020

The District Council  
Southland District Council  
PO Box 903  
Invercargill 9840

The Board Directors  
Covenant Trustee Services Limited  
PO Box 4243  
Shortland Street  
Auckland 1010

Dear Councillors and Directors

**Confirmation of engagement – Limited Independent Assurance Report in respect of the Southland District Council's Debenture Trust Deed**

The purpose of this letter is to confirm our understanding of our mutual responsibilities arising from your request to provide a report (the Report) under clause 12.2.6 of the Debenture Trust Deed between Covenant Trustee Services Limited, (the Trustee) and Southland District Council dated 22 December 2009 (the Trust Deed).

The purpose of this letter is to confirm the terms of our Limited Independent Assurance Engagement and the nature of, and limitations to the services that we will provide. All services are provided subject to the terms and limitations set out in this letter (including any appendices).

**Scope of the engagement**

The Auditor-General is the auditor of Southland District Council pursuant to the Public Audit Act 2001. The Auditor-General has appointed me Dereck Ollsson, using the staff and resources of Audit New Zealand to carry out the audit of the annual financial statements and performance information of Southland District Council.

The objective of the audit of the annual financial statements and performance information, which is the subject of a separate letter of engagement with Southland District Council dated 19 May 2020 (attached as Appendix 2), is to report our opinion on those annual financial statements and performance information on behalf of the Auditor-General.

A business unit of the Controller and Auditor-General | [www.auditnz.parliament.nz](http://www.auditnz.parliament.nz)

As auditors appointed for the audit of the annual financial statements and performance information, we are not responsible for:

- the preparation of the annual financial statements and performance information of Southland District Council;
- any Reporting Certificate(s) issued to the Trustee by Southland District Council;
- Southland District Council's compliance with the Trust Deed; or
- the obligations of the Trustee, as defined in the Trust Deed and relevant legislation, or the Trustee's execution of those responsibilities in accordance with the Trust Deed and relevant legislation.

The procedures performed when carrying out the audit of the annual financial statements and performance information of the Southland District Council are not designed to assess whether the Southland District Council has complied with the Trust Deed or to make an evaluation of the Reporting Certificate(s) Southland District Council issued to the Trustee.

The scope of this Limited Independent Assurance Engagement is to report on certain matters stated in clause 12 of the Trust Deed based on information obtained as a by-product of the audit of the annual financial statements and performance information of Southland District Council for the year ending 30 June 2020.

For the purpose of providing our Report, (other than as expressly stated in the section below titled "Scope of the Auditor's Responsibilities under the Trust Deed"), we will not perform any further procedures beyond those required to complete the audit of the annual financial statements and performance information of Southland District Council.

In the performance of our duties as auditors, unless expressly stated, we do not perform any work at the time Southland District Council's Reporting Certificate for the year ended 30 June 2020 is prepared. Accordingly, our statements contained in the Report in relation to the matters addressed in clause 12.2.6 of the Trust Deed must be viewed in that context.

### **Scope of Southland District Council's responsibilities**

Southland District Council is required to provide a copy of the annual report, which includes the audited financial statements and performance information of Southland District Council and our audit opinion, to the Trustee under clause 12.2.6 of the Trust Deed.

Southland District Council is responsible for preparing Reporting Certificates to the Trustee in accordance with clause 12.2.6 of the Trust Deed. Southland District Council is responsible for such internal control as is determined necessary to ensure compliance with the requirements of the Trust Deed and also to enable the preparation of Reporting Certificates that are free from material misstatement, whether due to fraud or error.

Southland District Council is responsible for keeping the Register and ensuring that it is separately audited in accordance with clause 12.2.6 of the Trust Deed.

Southland District Council is required to comply with the full requirements of the Trust Deed, including the continuing covenants and reporting requirements.

Southland District Council is responsible for interpreting the clauses and definitions in the Trust Deed. We make no representations as to whether these interpretations of the Trust Deed are appropriate.

### **Scope of the Trustee's responsibilities**

The Trustee monitors the Southland District Council's compliance under the terms of the Trust Deed. The terms of the Trust Deed were agreed by the Trustee and Southland District Council. We are not a signatory to the Trust Deed and we were not consulted about the terms of the Trust Deed. We therefore take no responsibility for the adequacy of the terms of the Trust Deed for monitoring Southland District Council.

The receipt of the Limited Independent Assurance Report and the audited annual financial statements and performance information of Southland District Council, and any reliance on the audit opinion contained in our auditor's report attached to those audited annual financial statements and performance information, does not relieve the Trustee of its responsibilities under the Trust Deed and relevant legislation.

The Financial Markets Authority (FMA) issued a guidance note titled "Monitoring by Securities Trustees and Statutory Supervisors"<sup>1</sup>. This guidance note sets out the FMA's expectations about how Trustees will carry out their monitoring functions effectively. Where applicable, it is the Trustee's responsibility to meet the FMA's expectations as set out in the guidance note.

### **Scope of the Auditor's responsibilities under the Trust Deed**

We will conduct our Limited Independent Assurance Engagement in accordance with the International Standard on Assurance Engagements (New Zealand) 3000 (Revised): Assurance Engagements Other Than Audits or Reviews of Historical Financial Information issued by the External Reporting Board. A copy of this standard is available on the External Reporting Board's website. A Limited Independent Assurance Engagement is not an audit and the procedures that have been performed are less than for an audit. As a result, the level of assurance that has been obtained is substantially lower than the assurance that would have been obtained had an audit been performed.

This standard requires that we comply with ethical requirements and plan and perform our Limited Independent Assurance Engagement to obtain limited assurance about whether anything has come to our attention to indicate that the Reporting Certificate for the year ended 30 June 2020 has not been prepared in accordance with the requirements of clause 12.2.6 of the Trust Deed.

We will report to you on the following specific matters under clause 12.2.6 of the Trust Deed:

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<sup>1</sup> Please refer to the FMA website for a copy of the guidance note titled "Monitoring by Securities Trustees and Statutory Supervisors" (2013).

- From our perusal of the Reporting Certificate dated 30 June 2020 given on behalf of Southland District Council pursuant to clause 12.2.4 and, as far as matters that we will observe in the performance of our duties as auditors are concerned, whether anything is brought to our attention to indicate that the statements made in such Reporting Certificate are not materially correct.

In meeting this responsibility we will agree the total amount of all categories of stock in the Reporting Certificate dated 30 June 2020 with Link Market Services.

With reference to the other assertions the Chief Executive will make in the Reporting Certificate our procedures will be limited to talking to management and considering any issues which might have come to our attention as a by-product of the Statutory Audit Engagement.

- Whether, in performing our duties as auditors, we have:
  - become aware of any matters which, in our opinion, are relevant to the exercise or performance of the powers or duties conferred or imposed on the Trustee; and
  - disclosed any matter that, in our opinion, calls for further investigation by the Trustee in the interests of the Stockholders.

In meeting this responsibility, our procedures will be limited to talking to management and considering any issues which might come to our attention as a by-product of the audit of the annual financial statements and performance information.

- As at the end of the financial year, from the audit procedures performed as part of the audit of the annual financial statements and performance information, whether anything came to our attention to indicate that, in all material respects, principal money due and payable on the Stock and interest due and payable on the Stock, had not been paid.

We will not test that each individual Stockholder has received all monies due and payable to them.

We will report to you on the following matters under clause 12.2.6 of the Trust Deed:

- Whether Southland District Council's agents have maintained the Register in accordance with the requirements of the Trust Deed.
- Southland District Council is responsible for maintaining the Register and ensuring it is separately audited in accordance with clause 4.2.8.

We will not audit the Register for the year ended 30 June 2020. Our procedures will be limited to asking Southland District Council for a copy of the audit report about the audit of the Register.

- As at 30 June 2020:

- the amount of Stock and how much is Security Stock and Bearer Stock; and
- the Principal Money owing or secured under the Stock distinguishing between Security Stock and other categories of Stock.

In meeting this responsibility, we will agree the total of all categories of Stock with Link Market Services. We will not test that each individual Stockholder has received all monies due and payable to them.

Our Limited Independent Assurance Engagement to provide the Report will be completed in accordance with the scope defined in this letter and any reliance on the Report can only be in the context of the scope as defined. The Report will therefore not be suitable for any other purpose.

### **Timetable**

Our work will be completed concurrently with the audit of the annual financial statements and financial information. We will complete our Report as soon as possible once Southland District Council has signed the annual financial statements and performance information and provided us with the Reporting Certificate given on behalf of Southland District Council pursuant to clause 12.2.4 of the Trust Deed.

### **Restriction on use and distribution of our report**

Our report will be addressed to Southland District Council and the Trustee for the sole purpose of meeting the requirements of clause 12.2.6 of the Trust Deed.

Our report is not to be used for any other purpose, copied or made available (in whole or in part), or recited or referred to in any document, made available to any other person, without our prior written consent except as may be required by law. In addition, we will take no responsibility for, nor do we report on, any part of the Trust Deed not specifically mentioned in the report.

### **Fees**

The fee will be payable by Southland District Council for this Limited Independent Assurance Engagement. The total fee is estimated to be \$4,000.

### **Supporting documentation required**

In order to complete this engagement we will need access certain information and documentation that council should have in its files supporting its reporting certificate. Please refer to Appendix 3 for details of the information and documentation we will need.

**Agreement**

If you have any questions about this letter, please contact me. Please confirm your agreement to the terms and limitations of this engagement letter by signing below and returning a copy to us.

Yours faithfully



Dereck Ollsson  
Audit New Zealand  
On behalf of the Auditor-General  
Dunedin, New Zealand

**Southland District Council acceptance**

Southland District Council confirms and accepts the engagement of Audit New Zealand to provide the services on the terms and conditions set out in this engagement letter.

\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Name)

\_\_\_\_\_  
(Position)



**Trustee acceptance**

Covenant Trustee Services Limited as Trustee for Southland District Council confirms and accepts the engagement of Audit New Zealand to provide the services on the terms and conditions set out in this engagement letter.

Covenant Trustee Services Limited has entered into this letter of engagement in its capacity as Trustee of Southland District Council and accordingly its liability shall not be personal and unlimited but shall be limited to the assets of Southland District Council available to it from time to time in that capacity.



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(Signature)

Igor Viner

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(Name)

Relationship Manager

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(Position)

## Appendix 1: Indicative Report

### Limited Independent Assurance Report

#### To Southland District Council and to Covenant Trustee Services Limited in respect of Southland District Council's Debenture Trust Deed for the year ended 30 June 2020

The Auditor-General is the auditor of Southland District Council pursuant to the Public Audit Act 2001. The Auditor-General has appointed me, Dereck Ollsson, using the staff and resources of Audit New Zealand to carry out the audit of the annual financial statements. On behalf of the Auditor-General, I have also carried out this Limited Independent Assurance Engagement, using the staff and resources of Audit New Zealand, as referred to in the Debenture Trust Deed dated 22 December 2009 (the Trust Deed).

#### Southland District Council's responsibilities

Southland District Council is required to provide a copy of the annual report, which includes the audited financial statements of Southland District Council and our audit opinion, to the Covenant Trustee Services Limited (Trustee) under clause 12.2.1 of the Trust Deed.

Southland District Council is responsible for preparing Reporting Certificates to the Trustee in accordance with clause 12.2.4 of the Trust Deed. Southland District Council is responsible for such internal control as is determined necessary to ensure compliance with the requirements of the Trust Deed and also to enable the preparation of Reporting Certificates that are free from material misstatement, whether due to fraud or error.

Southland District Council is responsible for keeping the Register and ensuring that it is separately audited in accordance with clause 4.2.8 of the Trust Deed.

Southland District Council is required to comply with the full requirements of the Trust Deed, including the continuing covenants and reporting requirements.

Southland District Council is responsible for interpreting the clauses and definitions in the Trust Deed. We make no representations as to whether these interpretations of the Trust Deed are appropriate.

#### Trustee's responsibilities

The Trustee monitors Southland District Council's compliance under the terms of the Trust Deed. The terms of the Trust Deed were agreed by the Trustee and Southland District Council. We are not a signatory to the Trust Deed and we were not consulted about the terms of the Trust Deed. We

therefore take no responsibility for the adequacy of the terms of the Trust Deed for monitoring Southland District Council.

The receipt of this Limited Independent Assurance Report (Report) and the audited financial statements of the Southland District Council, and any reliance on the audit opinion contained in our auditor's report attached to those audited financial statements, does not relieve the Trustee of its responsibilities under the Trust Deed and relevant legislation.

The Financial Markets Authority (FMA) issued a guidance note titled "Monitoring by Securities Trustees and Statutory Supervisors"<sup>2</sup>. This guidance note sets out the FMA's expectations about how Trustees will carry out their monitoring functions effectively. Where applicable, it is the Trustee's responsibility to meet the FMA's expectations as set out in the guidance note.

### **Our responsibilities**

We conducted our Limited Independent Assurance Engagement in accordance with the International Standard on Assurance Engagements (New Zealand) 3000 (Revised): Assurance Engagements Other Than Audits or Reviews of Historical Financial Information issued by the External Reporting Board. A copy of this standard is available on the External Reporting Board's website. A Limited Independent Assurance Engagement is not an audit.

This standard requires that we comply with ethical requirements and plan and perform our Limited Independent Assurance Engagement to obtain limited assurance about whether anything has come to our attention to indicate the Reporting Certificate prepared for the year ended 30 June 2020 has not been prepared in accordance with the requirements of clause 12.2.4 of the Trust Deed.

The procedures performed when carrying out the audit of the annual financial statements of Southland District Council are not designed to assess whether Southland District Council has complied with the Trust Deed or to make an evaluation of the Reporting Certificate(s) Southland District Council issued to the Trustee.

The scope of this Limited Independent Assurance Engagement is to report on certain matters stated in clause 12.2.6 of the Trust Deed based on information obtained as a by-product of our engagement to perform the audit of the annual financial statements of Southland District Council for the year ended 30 June 2020 (Statutory Audit Engagement).

For the purpose of providing our Report, unless expressly stated, we have not performed any further procedures beyond those required to complete the Statutory Audit Engagement of Southland District Council.

In the performance of our duties as auditors, unless expressly stated, we do not perform any work at the time the Reporting Certificate for the year ended 30 June 2020 is prepared by Southland District Council. Accordingly, our statements contained in the Report in relation to the matters addressed in clause 12.2.6 of the Trust Deed must be viewed in that context.

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<sup>2</sup> Please refer to the FMA website for a copy of the guidance note titled "Monitoring by Securities Trustees and Statutory Supervisors" (2013).

Our responsibility under clause 12.2.6 of the Trust Deed is to:

- From our perusal of the Reporting Certificate dated 30 June 2020 given on behalf of Southland District Council pursuant to clause 12.2.4 and, as far as matters that we will observe in the performance of our duties as auditors are concerned, report whether anything is brought to our attention to indicate that the statements made in such Reporting Certificate are not materially correct.

In meeting this responsibility we agreed the total amount of all categories of Stock in the Reporting Certificate dated 30 June 2020 with Link Marketing Services.

- Report whether, in performing our duties as auditors, we have:
  - become aware of any matters which, in our opinion, are relevant to the exercise or performance of the powers or duties conferred or imposed on the Trustee; and
  - disclosed any matter that, in our opinion, calls for further investigation by the Trustee in the interests of the Stockholders.

In meeting this responsibility, our procedures have been limited to talking to management and considering any issues which might have come to our attention as a by-product of the Statutory Audit Engagement.

- Report, as at the end of the financial year, from the audit procedures performed as part of our Statutory Audit Engagement, whether anything came to our attention to indicate that, in all material respects, principal money due and payable on the Stock and interest due and payable on the Stock had not been paid.

We have not tested that each individual Stockholder has received all monies due and payable to them.

- Report whether the Southland District Council's agents have maintained the Register in accordance with the requirements of the Trust Deed.

Southland District Council is responsible for maintaining the Register and ensuring it is separately audited in accordance with clause 4.2.8.

We are not the auditor of the Register. Our procedures were limited to asking Southland District Council for a copy of the audit report about the Register.

- Report as at 30 June 2020:
  - the amount of Stock and how much is Security Stock and Bearer Stock; and
  - the Principal Money owing or secured under the Stock distinguishing between Security Stock and other categories of Stock.

In meeting this responsibility, we have agreed the total of all categories of Stock with Link Marketing Services. We have not tested that each individual Stockholder has received all monies due and payable to them.

### Limitations and use of this report

This Limited Independent Assurance Report has been prepared solely for Southland District Council and the Trustee in accordance with the Trust Deed. We disclaim any assumption of responsibility for any reliance on this report to any persons or users other than Southland District Council and the Trustee or for any purpose other than that for which it was prepared.

We report to you as accountants, not lawyers. Accordingly we are not aware of all the powers and duties of trustees which may exist in statute, regulation, case law, legal precedent or otherwise.

Other than as expressly stated, we have not undertaken any additional audit work after signing our statutory audit report on Southland District Council's financial statements and performance information. We explain the scope of our statutory audit engagement in our audit report on Southland District Council's financial statements and performance information for the year ended 30 June 2020.

Because of the inherent limitations in evidence gathering procedures, it is possible that fraud, error or non-compliance may occur and not be detected. As the procedures performed for this engagement are not performed continuously throughout the period and the procedures performed in respect of Southland District Council's compliance with the Trust Deed are undertaken on a test basis (that is, we do not check every transaction), our Limited Independent Assurance Engagement cannot be relied on to detect all instances where Southland District Council may not have complied with the requirements of the Trust Deed. Our Conclusion has been formed on the above basis.

### Unqualified conclusion

Based on our work described in this report, nothing has come to our attention that causes us to believe that:

- The statements made by Southland District Council in the Reporting Certificate dated 30 June 2020 pursuant to clause 12.2.4 are materially incorrect (Reporting Certificate dated 30 June 2020 is given in Appendix 1).
- There are any matters which, in our opinion, are relevant to the exercise or performance of the powers or duties conferred or imposed on the Trustee.
- There are any matters that, in our opinion, calls for further investigation by the Trustee in the interests of the Stockholders;
- In all material respects, that Southland District Council has not paid all principal money due and payable on the Stock and all interest due and payable on the Stock.

Our Limited Independent Assurance Engagement was completed on [date] and our conclusion is expressed as at that date.

### The Register and Stock

Southland District Council has not provided us with a copy of the audit report about the Register(s).

Based on the work described in this report, as at [insert date] the following balances are given:

o	Total stock of	xxxx
This is comprised of:		
o	Security stock of	xxxx
o	Bearer stock of	xxxx
o	Other stock of	xxxx
o	Security stock (Local Government Funding Agency stock) of	xxxx

Based on the work described in this report, as at [insert date] the following balances are given:

Southland District Council is a one of a group of guarantors of the Local Government Funding Agency. As at 30 June 2020 the Southland District Council had xx units of Security Stock on issue associated with the guarantee.

### Independence and quality control

When carrying out the engagement, we complied with the Auditor-General's:

- Independence and other ethical requirements, which incorporate the independence and ethical requirements of Professional and Ethical Standard 1 (Revised) issued by the New Zealand Auditing and Assurance Standards Board; and
- Quality control requirements, which incorporate the quality control requirements of Professional and Ethical Standard 3 (Amended) issued by the New Zealand Auditing and Assurance Standards Board.

Other than this engagement and our audit of Southland District Council's annual financial statements and performance information and audit of summaries, we have no relationship with or interests in Southland District Council or any of its subsidiaries or the Trustee.

Dereck Ollsson  
Audit New Zealand  
On behalf of the Auditor-General  
Dunedin, New Zealand



## Appendix 2: Engagement Letter – Audit of the annual financial statements and performance information

AUDIT NEW ZEALAND  
Mana Arotake Aotearoa

Level 1, 399 Moray Place  
PO Box 232, Dunedin 9054

19 May 2020

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 Southland District Council and Group (SDC), under section 14 of the Public Audit Act 2001 (the Act). The Auditor-General has appointed me, Dereck Ollsson, using the staff and resources of Audit New Zealand, under sections 32 and 33 of the Act, to carry out the annual audits of SDC’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 2020 to 30 June 2022.

This letter outlines:

- the terms of the audit engagement and the nature, and limitations, of the annual audit; and
- the respective responsibilities of the governing body (the 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 SDC’s financial statements and performance information; and
- to report on other matters that come to our attention as part of the annual audit (typically those matters will relate to issues of financial management and accountability).

We will carry out the audit in accordance with the Auditor-General’s Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board (collectively the Auditing Standards). The Auditing Standards require that we comply with ethical requirements, and plan and perform the annual audit to obtain reasonable assurance about whether the SDC’s financial statements and performance information are free from material misstatement. The Auditing Standards also require that we remain alert to issues of concern to the Auditor-General. Such issues tend to relate to matters of financial management and accountability.

A business unit of the Controller and Auditor-General | [www.auditnz.parliament.nz](http://www.auditnz.parliament.nz)



**The council's responsibilities**

Our audit will be carried out on the basis that the council, as the governing body, acknowledges that it has responsibility for:

- preparing the financial statements and performance information in accordance with any applicable legal requirements and financial reporting standards;
- having such internal control as determined necessary to enable the preparation of 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 relevant to preparing the financial statements and performance information such as records, documentation, and other information;
  - all other information, in addition to the financial statements and performance information, to be included in the annual report;
  - additional information that we may request from the SDC for the purpose of the audit;
  - unrestricted access to council members and employees that we consider necessary; and
  - written confirmation concerning representations made to us in connection with the audit.

In addition, the council is responsible for:

- the preparation of the summary financial statements and summary performance information;
- making the audited summary financial statements and summary performance information readily available to the intended users of that information; and
- including 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 that information.

The council's responsibilities extend to all resources, activities, and entities under its control. We expect that the 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 council and/or the individuals within the SDC 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 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. Appendix 2 contains some additional responsibilities relating to the health and safety of audit staff. We expect members of the council to be familiar with those responsibilities and, where necessary, have obtained advice about them.

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

### **Our responsibilities**

#### ***Carrying out the audit***

We are responsible for forming an independent opinion on whether the financial statements of the SDC:

- present fairly, in all material respects:
  - its financial position; and
  - its financial performance and cash flows for the financial year; and
- comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Standards.

We are also responsible for forming an independent opinion on whether the performance information of SDC:

- presents fairly, in all material respects, the performance for the financial year, including:
  - its performance achievements as compared with the intended levels of service for the financial year; and
  - its actual revenue and expenses as compared with the forecasts included in the long-term plan and annual plan for the financial year; and
- complies with generally accepted accounting practice in New Zealand.

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 obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the SDC's internal controls. However, we will communicate to you in writing about any significant deficiencies in internal control relevant to the audit of the financial statements and performance information that we identify during the audit.

During the audit, the audit team will:

- be alert for issues of effectiveness and efficiency – in particular, how the council and the SDC have carried out their activities;
- consider laws and regulations relevant to the audit;
- be alert for issues of waste – in particular, whether the council obtained and applied the resources of the SDC in an economical manner, and whether any resources are being wasted;
- be alert for issues of a lack of probity – in particular, whether the council and the SDC have met Parliament's and the public's expectations of appropriate standards of behaviour in the public sector; and
- be alert for issues of 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 SDC; including being independent of management personnel and members of 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 the objectivity of the audit team and the Audit New Zealand.

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

**Reporting**

We will issue an independent audit report that will be attached to the financial statements and performance information. This report contains our opinion on the fair presentation of the financial statements and performance information and whether they comply with the applicable reporting requirements. The audit report may also include comment on other financial management and accountability matters that we consider may be of interest to the addressee 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 full financial statements and full performance information.

We will also issue a management letter that will be sent to the council. This letter communicates any matters that come to our attention during the audit that, in our opinion, are relevant to the council. Typically, those matters will relate to issues of financial management and accountability. We may also provide other management letters to SDC from time to time. We will inform the council of any other management letters we have issued.

Please note that the Auditor-General may publicly report 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 letter in the space provided and returning a copy to me. The terms will remain effective until a new audit engagement letter is issued.

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. 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



Dereck Ollsson  
Associate Auditor  
On behalf of the Auditor-General

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

Signed \_\_\_\_\_ Date \_\_\_\_\_  
Gary Tong  
Mayor  
Southland District Council

## Appendix 1: Respective specific responsibilities of the council (the governing body) and the Appointed Auditor

Responsibilities of the council	Responsibility of the Appointed Auditor
<b>Responsibilities for the financial statements and performance information</b>	
<p>You are required by legislation to prepare financial statements and performance information in accordance with legal requirements and financial reporting standards.</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 us before the statutory reporting deadline. It is normal practice for you to set your own timetable to comply with statutory reporting deadlines. To meet the reporting deadlines, we are dependent on receiving the 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 and financial reporting standards, and are supported by proper accounting records and complete evidential documentation.</p>	<p>We are responsible for carrying out an annual audit, on behalf of the Auditor-General. We are responsible for forming an independent opinion on whether the financial statements:</p> <ul style="list-style-type: none"> <li>• present fairly, in all material respects: <ul style="list-style-type: none"> <li>◦ the financial position; and</li> <li>◦ the financial performance and cash flows for the financial year; and</li> </ul> </li> <li>• comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Standards.</li> </ul> <p>We are also responsible for forming an independent opinion on whether the performance information:</p> <ul style="list-style-type: none"> <li>• presents fairly, in all material respects, the performance for the financial year, including: <ul style="list-style-type: none"> <li>◦ the performance achievements as compared with the intended levels of service for the financial year; and</li> <li>◦ the actual revenue and expenses as compared with the forecasts included in the long-term plan and annual plan for the financial year; and</li> </ul> </li> <li>• complies with generally accepted accounting practice in New Zealand.</li> </ul> <p>We will also read the other information accompanying the financial statements and performance information and consider 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.</p>

Responsibilities of the council	Responsibility of the Appointed Auditor
	<p>Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence the audit report addressee'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"> <li>• the appropriateness of accounting policies used and whether they have been consistently applied;</li> <li>• the reasonableness of the significant accounting estimates and judgements made by those charged with governance;</li> <li>• the appropriateness of the content and measures in any performance information;</li> <li>• the adequacy of the disclosures in the financial statements and performance information; and</li> <li>• the overall presentation of the financial statements and performance information.</li> </ul> <p>We will ask you for written confirmation of representations made about the financial statements and performance information. In particular, we will seek confirmation that:</p> <ul style="list-style-type: none"> <li>• the adoption of the going concern basis of accounting is appropriate;</li> <li>• all material transactions have been recorded and are reflected in the financial statements and performance information;</li> <li>• all instances of non-compliance or suspected non-compliance with laws and regulations have been disclosed to us; and</li> <li>• uncorrected misstatements noted during the audit are immaterial to the financial statements and performance information.</li> </ul> <p>Any representation made does not in any way reduce our responsibility to perform appropriate audit procedures and enquiries.</p> <p>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</p>

Responsibilities of the council	Responsibility of the Appointed Auditor
	<p>financial statements and performance information, or for some other reason beyond our control, as soon as possible after that.</p> <p>The work papers that we produce in carrying out the audit are the property of the Auditor-General. Work papers are confidential to the Auditor-General and subject to the disclosure provisions in section 30 of the Public Audit Act 2001.</p>
<b>Responsibilities for the accounting records</b>	
<p>You are responsible for maintaining accounting and other records that:</p> <ul style="list-style-type: none"> <li>• correctly record and explain the transactions of SDC;</li> <li>• enable you to monitor the resources, activities, and entities under your control;</li> <li>• enable SDC's financial position to be determined with reasonable accuracy at any time;</li> <li>• 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</li> <li>• are in keeping with the requirements of the Commissioner of Inland Revenue.</li> </ul>	<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>
<b>Responsibilities for accounting and internal control systems</b>	
<p>You are responsible for establishing and maintaining accounting and internal control systems (appropriate to the size of SDC), supported by written policies and procedures, designed to provide reasonable assurance as to the integrity and reliability of financial and performance information 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.</p> <p>We will report to you separately, on any significant 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>
<b>Responsibilities for preventing and detecting fraud and error</b>	
<p>The responsibility for the prevention and detection of fraud and error rests with you,</p>	<p>We design our audit to obtain reasonable, but not absolute, assurance of detecting fraud or error that</p>



Responsibilities of the council	Responsibility of the Appointed Auditor
<p>through the implementation and continued operation of adequate internal control systems (appropriate to the size of SDC) 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 SDC with delegated authority have a reasonable basis that suspected fraud has occurred – regardless of the amount involved.</p>	<p>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 them to express an opinion on the financial statements and performance information, but we will:</p> <ul style="list-style-type: none"> <li>• obtain an understanding of internal control and assess its ability for preventing and detecting material fraud and error; and</li> <li>• report to you any significant weaknesses in internal control that come to our notice.</li> </ul> <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 the 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 for compliance with laws and regulations	
<p>You are responsible for ensuring that SDC has systems, policies, and procedures (appropriate to the size of SDC) to ensure that all applicable legislative, regulatory, and contractual requirements that apply to the activities and functions of SDC are complied with. Such systems, policies, and procedures should be documented.</p>	<p>We will obtain an understanding of the systems, policies, and procedures put in place for the purpose of ensuring compliance with those legislative and regulatory requirements that are relevant to the audit. Our consideration of specific laws and regulations will depend on a number of factors, including:</p> <ul style="list-style-type: none"> <li>• the relevance of the law or regulation to the audit;</li> <li>• our assessment of the risk of non-compliance; and</li> <li>• the impact of non-compliance for the addressee of the audit report.</li> </ul> <p>The way in which we will report instances of non-compliance that come to our attention will depend on considerations of materiality or</p>



Responsibilities of the council	Responsibility of the Appointed Auditor
	<p>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 and regulations.</p>
<b>Responsibilities to establish and maintain appropriate standards of conduct and personal integrity</b>	
<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 – particularly in matters relating to financial management and accountability. Specifically, we will be alert for significant instances where members and employees of SDC 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 departures from expected standards of conduct and personal integrity that come to our attention during the audit.</p>
	<p>The Auditor-General, on receiving a report from us, may, at his 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>
<b>Responsibilities for conflicts of interest and related parties</b>	
<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. Depending on the circumstances, we may enquire whether 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 of the council	Responsibility of the Appointed Auditor
<b>Responsibilities for publishing the audited financial statements on a website</b>	
<p>You are responsible for the electronic presentation of the financial statements and performance information on SDC'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 the audit report is reproduced in any medium, you should present the complete financial statements, including notes, accounting policies, and any other accountability statements.</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>

## Appendix 2: Health and safety of audit staff

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 safe work environment for our audit staff. 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.

### Appendix 3: Supporting documentation required

We will need access to the following information and documentation from council's records supporting the reporting certificate:

- A copy of the debenture trust deed.
- The signed reporting certificate for the debenture trust deed for 30 June 2020.
- The LGFA floating nominal amount confirmation as at 30 June 2020.
- Copies of all security stock certificates, including all security stock recorded on the register as 1 cent/1 unit security stocks.
- A security stock listing, indicating who the holders of each security stock are.
- Debt terms sheets for all debenture stock outstanding.
- Written confirmation that all stock that was due to be repaid during the financial was in fact repaid.
- Written confirmation that any interest due for payment on the stock was in fact paid.

Please note that items requested above may not represent all of the information that we need, and additional requests for information and documentation may follow during the course of the engagement depending on the circumstances.

## Audit Engagement Letters

**Record No:** R/20/5/11659  
**Author:** Sheree Marrah, Financial Accountant  
**Approved by:** Anne Robson, Chief Financial Officer

☒ Decision

☐ Recommendation

☐ Information

### Purpose

- 1 To receive the proposal and audit engagement letters from Audit NZ, to conduct the audit of Council on behalf of the Auditor-General for the 2020, 2021 and 2022 financial years.
- 2 For Council to consider accepting the fee proposed in regards to the 2020 year and the terms of the audit including Councils responsibilities for the years ended 30 June 2020, 2021 and 2022.

### Executive summary

- 3 Council has received the proposal from Audit NZ to complete the audit of Council on behalf of the Auditor-General for the 2020, 2021 and 2022 financial years. As part of doing so, Audit NZ is looking for Council to accept the audit fee for the year ended 30 June 2020 and the proposal to work together for the setting of the fees for the 2021 and 2022 financial years.
- 4 Council has also received the audit engagement letter for the years ending 30 June 2020 to 30 June 2022, which sets out the terms of the audit engagement and the respective responsibilities of Audit NZ and Council during this process. Audit NZ is looking for Council to acknowledge the terms of engagement.
- 5 If the committee is in agreement with what is proposed, the report includes a recommendation for the mayor to be given authority to sign the documents on behalf of Council.
- 6 A summary of the letters (attachment A & B) is undertaken in the report.

## Recommendation

**That the Finance and Assurance Committee:**

- a) **Receives the report titled “Audit Engagement Letters” dated 16 June 2020,**
- 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) **Receives the proposal from Audit NZ to conduct the audit of Council on behalf of the Auditor-General for the 2020, 2021 and 2022 financial years**
- e) **Receives the Audit engagement letter from Audit NZ for the 2020, 2021 and 2022 financial years**
- f) **Accepts the proposed 1.5% audit fee increase of \$1,775 for the audit of the annual report for the year ended 30 June 2020, resulting in an overall audit fee of \$120,124 excl GST plus actual disbursements for the year ended 30 June 2020.**
- g) **Accepts the terms of the engagement for the audit of the annual report for the 2020, 2021 and 2022 financial years.**
- h) **Agrees to enter into discussions with Audit NZ in relation to the audit of Councils annual report for the years ended 30 June 2021 and 2022**
- i) **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 2020, 2021 and 2022 financial years,**
  - **audit engagement letter.**

## Background

- 7 The purpose of this report is to provide an overall summary of the two letters recently received from Audit NZ. The two letters being the audit proposal letter and the audit engagement letter. These letters cover the coming three financial years and are in response to the Office of the Auditor General (OAG) seeking to appoint the auditor for Council for that period.
- 8 These letters are in addition to the audit plan letter received from Audit NZ in relation to the 2019/20 annual report that was presented to the committees 30 April 2020 meeting.

### Audit Proposal Letter

- 9 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 fee for the audit of the financial year ending 30 June 2020, and the reasons for any change,
  - assumptions relating to the proposed audit fees, including what is expected of Council,
  - what the OAG audit standard and quality support fee provides,
  - the certification required by the Auditor General, and
  - Audit NZ's commitment to conduct the audit in accordance with the Auditor-General's Auditing Standards.
- 10 Normally the proposal letter outlines the audit fee for each of the three years. Generally the fee is set by the Auditor General having regard to section 42 of the Public Audit Act which requires that the fees are "reasonable" for both the auditors and Council.
- 11 This letter only proposes the setting of the fee for the year ended 30 June 2020. For that year the fee is being held at 1.5% over the agreed fee for the 30 June 2019 audit. In proposing this fee, the Auditor-General noted the very real cost pressures that Council and his office is facing as a result of Covid-19.
- 12 In fixing the fee for 2020 however, the Auditor General has clearly indicated that for many years across the sector there has been a significant and growing under recovery of audit fees for a range of reasons and that that needs to be resolved, as parliament expects the cost to be met by public entities.
- 13 As a result of the cost pressures and worried that audit quality may be compromised over time, Councils are being encouraged to work with their auditor to mutually agree and recommend fees to the OAG for the 2021 and 2022 financial years. The timing of this work, is being proposed by Mr Ollsson to be later this year, beginning of next, due to workloads.
- 14 To start this process, Mr Ollsson has outlined in section five and six of the proposal the budgeted and actual hours for 2019 along with budgeted 2020 hours and the proposed audit fee. As part of section six, Mr Ollsson has indicated that the fee for 2020 if based in an efficient audit at full recovery would be in the range of \$145,743 to \$160,753, about \$35,000 or a 30% increase on the 2019 fee. Mr Ollsson indicates that the likely increase is significant and would be phased in over time.
- 15 As a note, if a fee cannot be agreed, the Auditor General will, with assistance from the OAG, directly set the fee.

**Estimated audit hours and cost**

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

	<b>2019 budget</b>	<b>2019 actual charged</b>	<b>2019 incurred</b>	<b>2020</b>
<b>Total audit hours</b>	<b>716</b>	<b>-</b>	<b>1,150</b>	<b>824</b>
<b>Total audit fees (excl GST and disbursements)</b>	<b>\$118,349</b>	<b>\$124,524</b>	<b>\$186,706</b>	<b>\$120,124</b>
<b>Disbursements (excl GST charged by AuditNZ)</b>	<b>\$8,500</b>	<b>\$8,710</b>	<b>\$9,871</b>	<b>\$8,500</b>
<b>Accommodation disbursements for Audit NZ staff paid by Council (excl GST)</b>	<b>-</b>	<b>\$8,863</b>	<b>-</b>	<b>-</b>

- 17 For the committees information, Council has for a number of years paid the accommodation costs of Audit NZ staff due to the rate it has negotiated locally.
- 18 As noted above even though Audit NZ are indicating an increase in hours for the year ended 30 June 2020 the fee is being held at a 1.5% increase before actual disbursements.
- 19 In assessing the increase in hours of 108 (824 less 716), as noted in section 5.31 of their proposal, Audit NZ are reportedly recognising changes in the time needed to conduct the audit in line with the Office of the Auditor General guidelines over a number of prior years that have not been reflected in the fee calculation to date.
- 20 The increase relates to:
- changes to financial reporting standards which result in additional audit work principally IPSAS 34-38, group entity accounting, (7 hours)
  - unavoidable travel time, Mr Ollsson advised that this has not been previously invoiced. Seemingly when the Audit NZ office was moved from Invercargill to Dunedin a number of years ago, an agreement was made to not charge for travelling time. Mr Ollsson has advised that the 57 hours budgeted still does not reflect the actual hours taken to travel.
  - compulsory engagement quality control review (10 hours), as a result of now exceeding 750 hours an additional review within Audit NZ is needed,
  - changes within the entity, or in its environment – such as changes in the entity's activity, systems, risk profile, or complexity, which have resulted in a change to the size or complexity of the audit (34 hours). In here Audit NZ have noted that sensitive expenditure, asset valuations, rating process review, estimations and judgements, non-financial reporting and changes in the Council's group structure contribute to additional hours.



- 21 It is important to note that if over the three years, there are any changes made to the structure of council, mandatory accounting or auditing standards or the audit arrangements that would change the scope of, timing of or disbursements related to this audit then these would be discussed with Council as part of seeking additional recoveries for them.

**Audit Engagement Letter:**

- 22 The audit engagement letter for the 2020, 2021 and 2022 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.
- 23 The proposed engagement letter is not significantly different to that signed by the Mayor three years ago.

**Issues**

- 24 The purpose of an audit is to provide an objective independent examination of the financial statements, which increases their value and credibility, thus increasing user confidence in the financial statements. As such, it is in Council's interest for the Office of the Auditor General and Audit NZ to define the audit programme of work.
- 25 Notwithstanding the above paragraph, the audit is still being undertaken for the benefit of Council and as such the committee needs to take full advantage of the opportunity to draw any specific matter to the audit directors attention that it would like to see have additional assurance or comment on as part of the overall audit.

**Factors to consider**

**Legal and statutory requirements**

- 26 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.
- 27 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**

- 28 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, which typically have been consulted on.

**Costs and funding**

- 29 The cost associated with the audit of 2019/2020 Annual Report is \$120,124 (GST exclusive) plus disbursements. Audit Fees of \$151,613 have been budgeted in the 2019/2020 Annual Plan.

**Policy implications**

- 30 There are no policy implications.

**Analysis****Options Considered**

- 31 There are two options to be considered in this report as outlined below.

**Analysis of Options****Option 1 – accept and sign (subject to any amendments discussed and agreed at the meeting with the audit director) the audit proposal and audit engagement letters as attached.**

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

**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"> <li>Council is able to seek the clarification it requires or discuss the inclusion of any issue it would like incorporated into the audit</li> </ul>	<ul style="list-style-type: none"> <li>could delay the audit process if Council and Audit NZ cannot agree to appropriate arrangements.</li> </ul>

**Assessment of Significance**

- 32 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**

- 33 Option 1, accept and sign (subject to any amendments discussed and agreed at the meeting with the audit director) the audit proposal and audit engagement letters as attached.

**Next Steps**

- 34 If accepted, council staff will arrange for the Mayor to sign these letters and return them to Audit NZ.
- 35 Council staff will compile the 2019/2020 Annual Report to enable the final audit to be undertaken and adoption to occur on the 21 October 2020.

**Attachments**

- A Audit Proposal Letter for the 2020 2021 and 2022 financial years [↓](#)
- B Audit Engagement letter [↓](#)



AUDIT NEW ZEALAND  
Mana Arotake Aotearoa

Level 1, 399 Moray Place  
PO Box 232, Dunedin 9054

10 June 2020

Gary Tong  
Mayor  
Southland District Council  
PO Box 903  
Invercargill 9840

Ref: EN/LCA/3-0037 D844  
Copy: Director Auditor Appointments  
Office of the Auditor-General  
PO Box 3928  
Wellington 60140

Dear Gary

**Proposal to conduct the audit of Southland District Council on behalf of the Auditor-General for the 2020, 2021 and 2022 financial years**

**1 Introduction**

The Auditor-General proposes to appoint 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 2020, 2021 and 2022. 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 year ending 30 June 2020 and reasons for any change. We will agree the fees for the financial years ending 30 June 2021 and 30 June 2022 at a future date;
- assumptions relating to the proposed audit fees, including what we expect of your organisation;
- what the OAG Audit Standards and Quality Support fee (previously 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.

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## 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 (the Act), 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 Act. The Act requires the Auditor-General to make sure that audit fees are “reasonable” for both the auditors who complete the audits for the Auditor-General, and for each of the entities audited. The Auditor-General wrote to your Council recently letting you know that he has carefully considered the matter of annual audit fees for all Councils who do not currently have a contract in place. He has decided that for the 30 June 2020 audit, audit fees are to be held to a 1.5% increase over the agreed fee for the 30 June 2019 audit. This attempts to balance the very real cost pressures that your Council and his Office currently face. The Auditor-General also noted that he expects that there will be a range of effects of the COVID-19 pandemic that may require additional audit work, and that auditors will need to discuss recovery of costs for that with Councils in due course, once these costs are known.

The Auditor-General also advised that for a number of years there has been a significant and growing under recovery of audit fees across much of the local government sector, for a range of reasons. Because Parliament has indicated that it expects the cost of annual audits under the Act (including an OAG Audit Standards and Quality Support fee) to be funded by public entities, this is clearly not a sustainable position. It is also potentially creating a very real risk to maintaining consistent audit quality over time, which has been raised by audit regulatory bodies here and overseas.

Audit fees will, in the future, need to be increased to reflect the real costs. These increases will vary depending on the reasonableness of the current fee. So for the subsequent years of the contract, 2021 and 2022, your Council and I will in, due course, have the opportunity to discuss those real costs, and endeavour to reach agreement about reasonable fees that can be recommended to the Auditor-General for approval. The Auditor General, with assistance from the OAG, will directly set audit fees, but only if we fail to reach agreement.

To ensure that the level of audit effort required (and the reasons for it) are visible to your Council, this proposal includes an estimate of the total hours and indicative cost required to complete an efficient and quality audit of your Council (this is set out in sections 5 and 6). We expect to incur these hours in 2020, although the constrained fees will clearly not reflect the full cost of them.

## 3 Entities covered by this proposal

This proposal covers the audit of Southland District Council.

#### 4 Key members of the audit team

Appointed Auditor	Dereck Ollsson
Engagement Quality Reviewer (EQR)	Debbie Perera
Audit Manager	Monique Kruger

#### 5 Estimated audit hours

We estimate that the following hours will be required to carry out the 30 June 2020 audit (compared to the budgeted hours set out in your last audit proposal letter and actual data from the previous financial year):

Audit team member	2019 budget	2019 actual*	2020
Appointed Auditor	55	56	75
EQR Director	0	15	10
Audit Manager	95	129	120
Other CA qualified staff	240	530	240
Non CA qualified staff	310	397	360
Sector specialist support	8	0	7
Information systems	8	23	12
<b>Total audit hours</b>	<b>716</b>	<b>1,150</b>	<b>824</b>

**\*Note** – actual hours are all hours incurred. These hours have not been adjusted to eliminate any hours that were due to additional auditor requirements and inefficiencies.

For the 2019 audit the audit team spent additional time specifically on the Te Anau Wastewater project write off which had not been budgeted for as this was not expected. This led to an increase of 48 hours (\$6,000) of additional work recovered included in the total actual hours above.

### 5.1 Reasons for changes in audit hours

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

Reasons for changes in audit hours compared to estimated audit hours set out in the previous APL:	2020
Changes to financial reporting standards which result in additional audit work. IPSAS 34-38. SDC have numerous types of entities within their group structure i.e. JVs, Subsidiaries, associates of which will all be affected by these new standards.	7
Changes within the entity, or in its environment – such as changes in the entity's activity, systems, risk profile, or complexity, which have resulted in a change to the size or complexity of the audit.	34
<ul style="list-style-type: none"> <li>• <b>Sensitive expenditure</b> – All councils operate in an environment where ratepayers and other stakeholders expect high levels of ethical behaviour and want more transparency over how this is managed. This means they need robust policies and processes in areas such as fraud, bribery and corruption, and sensitive expenditure. They also need to demonstrate that they manage these areas effectively.</li> </ul> <p>The increased sensitivity and risk in these areas, which is reflected in and required from the OAG briefs to auditors, has flowed through to our audit and the work we do. In particular, we are required to undertake additional testing of the Chief Executive and Chair/Mayor's expenses every year.</p>	7
<ul style="list-style-type: none"> <li>• <b>Asset valuations</b> – Funding challenges, combined with greater community awareness and expectations over the resilience and performance of core assets, have increased the importance of, and risks associated with, council's asset related practices such as continually improving its asset condition information and developing more advanced management practices. These in turn increase the complexity of council's asset revaluations and fair value assessments.</li> </ul> <p>We have increased the time required for this work because each year the Council completes a full revaluation of its infrastructure assets. These are getting more complex and more level of testing is required. Our hours and fees are based on each class of asset being revalued each year. Any additional revaluations we are required to audit will be charged separately.</p>	16
<ul style="list-style-type: none"> <li>• <b>Rates</b> – Recent court cases have highlighted the risks council faces in relation to its rating processes. Seemingly minor procedural or documentation errors have the potential to undermine council's major revenue stream. The Council's increased risks have impacted on our approach to auditing Rates, and we now perform more testing on both individual rates and the information held in the RID.</li> </ul>	4
<ul style="list-style-type: none"> <li>• <b>Estimations and judgements</b> - significant accounting estimations, accruals and judgements, for example, landfill aftercare costs and</li> </ul>	4

Reasons for changes in audit hours compared to estimated audit hours set out in the previous APL:	2020
<p>employee entitlements, are significant to the Council's financial statements and present a risk of material misstatement. As council's knowledge of the underlying issues improves, these estimations and judgements become more complex and present a higher risk, which increases our required audit response.</p> <ul style="list-style-type: none"> <li>• <b>Non-financial reporting</b> – in the light of recent events, including natural disasters, the results of the Havelock North water enquiry, and the impacts of climate change, ratepayers and other stakeholders focus on local authorities' core services has increased. This has increased our assessment of risk in these areas which in turn has increased both the number of measures we identify as material and the amount of testing we do on these.</li> </ul>	3
Unavoidable travel time	57
Compulsory EQR required b/c now greater than 750 audit hours	10
<b>Total change in audit hours</b>	<b>108</b>

## 6 Proposed audit fees

Our proposed fees for the 2020 audit (compared to budgeted and actual data from the previous financial year) is:

Structure of audit fees	2019 budget fees	2019 actual fees charged	2019 actual fees incurred (*)	2020
	\$	\$	\$	\$
Net audit fee	107,436	113,611	175,793	109,047
OAG Audit Standards and Quality Support fee	10,913	10,913	10,913	11,077
<b>Total audit fee (excluding disbursements)</b>	<b>118,349</b>	<b>124,524</b>	<b>186,706</b>	<b>120,124</b>
Disbursements	8,500	8,711	9,871	8,500
<b>Total billable audit fees and charges</b>	<b>126,849</b>	<b>133,235</b>	<b>196,577</b>	<b>128,624</b>
GST	19,027	19,985	29,487	19,294
<b>Total (including GST)</b>	<b>145,876</b>	<b>153,220</b>	<b>226,064</b>	<b>147,918</b>

\* **Note** – 2019 actual audit fees charged were \$118,349, compared to our 2019 audit costs of \$186,706. These costs have not been adjusted to eliminate any matters arising from auditor inefficiencies.

The estimated cost of an efficient audit on a full recovery basis for your Council in 2020 is in the range of \$145,753 to \$160,753. That is about \$35,000 or 30% more than the 2019 fee. Over time we expect that the audit fee charged will more fairly reflect our actual costs of performing the audit. We acknowledge that the likely increase is significant, and would need to be phased in over time.

The audit fees allow for the audit team to carry out specific tasks identified in the OAG Sector Brief and for the OAG Audit Standards and Quality Support fees. As set out in section 2, these fees have been held at a 1.5% increase over the agreed audit fee for 2019.

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.



## 7 Assumptions relating to our audit fee

You are responsible for the production of your financial statements and anything else that must be audited. Our proposed audit fees are based on the assumption that:

- you will provide to us, in accordance with the agreed timetable, 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 (including financial statements and statements of service performance) will be subject to appropriate levels of quality review by you 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 (other than as specified in tables 5.1);
- there are no significant changes to mandatory auditing standards that require additional work other than items specifically identified in the tables above; and
- there are no significant changes to the agreed audit arrangements that change the scope of, timing of, or disbursements related to, this audit.

If the scope and/or amount of work changes significantly, including as a result of the effects of the COVID-19 pandemic, we will discuss the issues and potential recovery of costs with you and the OAG at the time. In order to minimise additional auditor time on the potential effects of COVID-19 on your financial statements and service performance information, the Council should ensure that it considers those potential effects as early as possible and discusses them with the appointed auditor to ensure "no surprises" to either party.

### 7.1 Exclusions

The proposed hours set out in section 5, and our fees do not include the potential impact of the following, which may affect your entity in 2020, 2021, and/or 2022, as we are unable to assess their impact at this time:

- The future impact of changes to accounting standards, including:
  - PBE FRS 48.

- Changes to auditing standards including; IAS (NZ) 1, ISA (NZ) 315 and ISA (NZ) 540.
- The government's three waters review, including its announcement of a Crown Entity to regulate drinking water.
- Any future impact on the Council's reporting due to the re-introduction of the four well-beings into the Local Government Act in May 2019.
- The Productivity Commission's review of local government funding and financing.
- The impacts of future growth within the Council's area.
- The impacts of any new initiatives or funding sources related to either the Provincial Growth Fund or the Housing Infrastructure Fund.

## **8 What the OAG Audit Standards and Quality Support fees cover**

Parliament has indicated that it expects the cost of annual audits under the Public Audit Act (including an OAG Audit Standards and Quality Support fees) to be funded by public entities.

The OAG Audit Standards and Quality Support fees partially fund 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 Audit Standards and Quality Support fees portion of the total 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



Dereck Ollson  
Appointed Auditor  
Audit New Zealand

---

I accept the audit fees for the audit of the one financial year 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:        Dereck Ollsson  
   P O Box 232  
   Dunedin 9054



AUDIT NEW ZEALAND  
Mana Arotake Aotearoa

Level 1, 399 Moray Place  
PO Box 232, Dunedin 9054

18 May 2020

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 Southland District Council and Group (SDC), under section 14 of the Public Audit Act 2001 (the Act). The Auditor-General has appointed me, Dereck Ollsson, using the staff and resources of Audit New Zealand, under sections 32 and 33 of the Act, to carry out the annual audits of SDC’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 2020 to 30 June 2022.

This letter outlines:

- the terms of the audit engagement and the nature, and limitations, of the annual audit; and
- the respective responsibilities of the governing body (the 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 SDC’s financial statements and performance information; and
- to report on other matters that come to our attention as part of the annual audit (typically those matters will relate to issues of financial management and accountability).

We will carry out the audit in accordance with the Auditor-General’s Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board (collectively the Auditing Standards). The Auditing Standards require that we comply with ethical requirements, and plan and perform the annual audit to obtain reasonable assurance about whether the SDC’s financial statements and performance information are free from material misstatement. The Auditing Standards also require that we remain alert to issues of concern to the Auditor-General. Such issues tend to relate to matters of financial management and accountability.

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**The council's responsibilities**

Our audit will be carried out on the basis that the council, as the governing body, acknowledges that it has responsibility for:

- preparing the financial statements and performance information in accordance with any applicable legal requirements and financial reporting standards;
- having such internal control as determined necessary to enable the preparation of 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 relevant to preparing the financial statements and performance information such as records, documentation, and other information;
  - all other information, in addition to the financial statements and performance information, to be included in the annual report;
  - additional information that we may request from the SDC for the purpose of the audit;
  - unrestricted access to council members and employees that we consider necessary; and
  - written confirmation concerning representations made to us in connection with the audit.

In addition, the council is responsible for:

- the preparation of the summary financial statements and summary performance information;
- making the audited summary financial statements and summary performance information readily available to the intended users of that information; and
- including 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 that information.

The council's responsibilities extend to all resources, activities, and entities under its control. We expect that the 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 council and/or the individuals within the SDC 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 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. Appendix 2 contains some additional responsibilities relating to the health and safety of audit staff. We expect members of the council to be familiar with those responsibilities and, where necessary, have obtained advice about them.

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

### **Our responsibilities**

#### ***Carrying out the audit***

We are responsible for forming an independent opinion on whether the financial statements of the SDC:

- present fairly, in all material respects:
  - its financial position; and
  - its financial performance and cash flows for the financial year; and
- comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Standards.

We are also responsible for forming an independent opinion on whether the performance information of SDC:

- presents fairly, in all material respects, the performance for the financial year, including:
  - its performance achievements as compared with the intended levels of service for the financial year; and
  - its actual revenue and expenses as compared with the forecasts included in the long-term plan and annual plan for the financial year; and
- complies with generally accepted accounting practice in New Zealand.

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 obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the SDC's internal controls. However, we will communicate to you in writing about any significant deficiencies in internal control relevant to the audit of the financial statements and performance information that we identify during the audit.

During the audit, the audit team will:

- be alert for issues of effectiveness and efficiency – in particular, how the council and the SDC have carried out their activities;
- consider laws and regulations relevant to the audit;
- be alert for issues of waste – in particular, whether the council obtained and applied the resources of the SDC in an economical manner, and whether any resources are being wasted;
- be alert for issues of a lack of probity – in particular, whether the council and the SDC have met Parliament's and the public's expectations of appropriate standards of behaviour in the public sector; and
- be alert for issues of 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 SDC; including being independent of management personnel and members of 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 the objectivity of the audit team and the Audit New Zealand.

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



**Reporting**

We will issue an independent audit report that will be attached to the financial statements and performance information. This report contains our opinion on the fair presentation of the financial statements and performance information and whether they comply with the applicable reporting requirements. The audit report may also include comment on other financial management and accountability matters that we consider may be of interest to the addressee 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 full financial statements and full performance information.

We will also issue a management letter that will be sent to the council. This letter communicates any matters that come to our attention during the audit that, in our opinion, are relevant to the council. Typically, those matters will relate to issues of financial management and accountability. We may also provide other management letters to SDC from time to time. We will inform the council of any other management letters we have issued.

Please note that the Auditor-General may publicly report 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 letter in the space provided and returning a copy to me. The terms will remain effective until a new audit engagement letter is issued.

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. 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



Dereck Ollsson  
Associate Auditor  
On behalf of the Auditor-General

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

Signed \_\_\_\_\_ Date \_\_\_\_\_  
Gary Tong  
Mayor  
Southland District Council

## Appendix 1: Respective specific responsibilities of the council (the governing body) and the Appointed Auditor

Responsibilities of the council	Responsibility of the Appointed Auditor
<b>Responsibilities for the financial statements and performance information</b>	
<p>You are required by legislation to prepare financial statements and performance information in accordance with legal requirements and financial reporting standards.</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 us before the statutory reporting deadline. It is normal practice for you to set your own timetable to comply with statutory reporting deadlines. To meet the reporting deadlines, we are dependent on receiving the 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 and financial reporting standards, and are supported by proper accounting records and complete evidential documentation.</p>	<p>We are responsible for carrying out an annual audit, on behalf of the Auditor-General. We are responsible for forming an independent opinion on whether the financial statements:</p> <ul style="list-style-type: none"> <li>• present fairly, in all material respects: <ul style="list-style-type: none"> <li>◦ the financial position; and</li> <li>◦ the financial performance and cash flows for the financial year; and</li> </ul> </li> <li>• comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Standards.</li> </ul> <p>We are also responsible for forming an independent opinion on whether the performance information:</p> <ul style="list-style-type: none"> <li>• presents fairly, in all material respects, the performance for the financial year, including: <ul style="list-style-type: none"> <li>◦ the performance achievements as compared with the intended levels of service for the financial year; and</li> <li>◦ the actual revenue and expenses as compared with the forecasts included in the long-term plan and annual plan for the financial year; and</li> </ul> </li> <li>• complies with generally accepted accounting practice in New Zealand.</li> </ul> <p>We will also read the other information accompanying the financial statements and performance information and consider 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.</p>

Responsibilities of the council	Responsibility of the Appointed Auditor
	<p>Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence the audit report addressee'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"> <li>• the appropriateness of accounting policies used and whether they have been consistently applied;</li> <li>• the reasonableness of the significant accounting estimates and judgements made by those charged with governance;</li> <li>• the appropriateness of the content and measures in any performance information;</li> <li>• the adequacy of the disclosures in the financial statements and performance information; and</li> <li>• the overall presentation of the financial statements and performance information.</li> </ul> <p>We will ask you for written confirmation of representations made about the financial statements and performance information. In particular, we will seek confirmation that:</p> <ul style="list-style-type: none"> <li>• the adoption of the going concern basis of accounting is appropriate;</li> <li>• all material transactions have been recorded and are reflected in the financial statements and performance information;</li> <li>• all instances of non-compliance or suspected non-compliance with laws and regulations have been disclosed to us; and</li> <li>• uncorrected misstatements noted during the audit are immaterial to the financial statements and performance information.</li> </ul> <p>Any representation made does not in any way reduce our responsibility to perform appropriate audit procedures and enquiries.</p> <p>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</p>

Responsibilities of the council	Responsibility of the Appointed Auditor
	<p>financial statements and performance information, or for some other reason beyond our control, as soon as possible after that.</p> <p>The work papers that we produce in carrying out the audit are the property of the Auditor-General. Work papers are confidential to the Auditor-General and subject to the disclosure provisions in section 30 of the Public Audit Act 2001.</p>
<b>Responsibilities for the accounting records</b>	
<p>You are responsible for maintaining accounting and other records that:</p> <ul style="list-style-type: none"> <li>• correctly record and explain the transactions of SDC;</li> <li>• enable you to monitor the resources, activities, and entities under your control;</li> <li>• enable SDC's financial position to be determined with reasonable accuracy at any time;</li> <li>• 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</li> <li>• are in keeping with the requirements of the Commissioner of Inland Revenue.</li> </ul>	<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>
<b>Responsibilities for accounting and internal control systems</b>	
<p>You are responsible for establishing and maintaining accounting and internal control systems (appropriate to the size of SDC), supported by written policies and procedures, designed to provide reasonable assurance as to the integrity and reliability of financial and performance information 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.</p> <p>We will report to you separately, on any significant 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>
<b>Responsibilities for preventing and detecting fraud and error</b>	
<p>The responsibility for the prevention and detection of fraud and error rests with you,</p>	<p>We design our audit to obtain reasonable, but not absolute, assurance of detecting fraud or error that</p>

Responsibilities of the council	Responsibility of the Appointed Auditor
<p>through the implementation and continued operation of adequate internal control systems (appropriate to the size of SDC) 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 SDC with delegated authority have a reasonable basis that suspected fraud has occurred – regardless of the amount involved.</p>	<p>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 them to express an opinion on the financial statements and performance information, but we will:</p> <ul style="list-style-type: none"> <li>• obtain an understanding of internal control and assess its ability for preventing and detecting material fraud and error; and</li> <li>• report to you any significant weaknesses in internal control that come to our notice.</li> </ul> <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 the 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 for compliance with laws and regulations	
<p>You are responsible for ensuring that SDC has systems, policies, and procedures (appropriate to the size of SDC) to ensure that all applicable legislative, regulatory, and contractual requirements that apply to the activities and functions of SDC are complied with. Such systems, policies, and procedures should be documented.</p>	<p>We will obtain an understanding of the systems, policies, and procedures put in place for the purpose of ensuring compliance with those legislative and regulatory requirements that are relevant to the audit. Our consideration of specific laws and regulations will depend on a number of factors, including:</p> <ul style="list-style-type: none"> <li>• the relevance of the law or regulation to the audit;</li> <li>• our assessment of the risk of non-compliance; and</li> <li>• the impact of non-compliance for the addressee of the audit report.</li> </ul> <p>The way in which we will report instances of non-compliance that come to our attention will depend on considerations of materiality or</p>

Responsibilities of the council	Responsibility of the Appointed Auditor
	<p>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 and regulations.</p>
<b>Responsibilities to establish and maintain appropriate standards of conduct and personal integrity</b>	
<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 – particularly in matters relating to financial management and accountability. Specifically, we will be alert for significant instances where members and employees of SDC 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 departures from expected standards of conduct and personal integrity that come to our attention during the audit.</p>
	<p>The Auditor-General, on receiving a report from us, may, at his 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>
<b>Responsibilities for conflicts of interest and related parties</b>	
<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. Depending on the circumstances, we may enquire whether 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 of the council	Responsibility of the Appointed Auditor
<b>Responsibilities for publishing the audited financial statements on a website</b>	
<p>You are responsible for the electronic presentation of the financial statements and performance information on SDC'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 the audit report is reproduced in any medium, you should present the complete financial statements, including notes, accounting policies, and any other accountability statements.</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>



## Appendix 2: Health and safety of audit staff

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 safe work environment for our audit staff. 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 2020

Record No: R/20/5/11689  
Author: Sheree Marrah, 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 (Audit NZ) provides Council with a report on the interim audit of Council's Annual Report.
- 2 The primary purpose of the interim audit is for Audit NZ to update their understanding of Council's control environment, identify any control improvements required and confirm the extent to which they can rely on the controls in place for the Council. Their findings indicated that Council continues to operate an effective control environment.
- 3 Overall the report notes that based on the work performed, there are no new recommendations. As the interim audit procedures were undertaken remotely during level 4 Covid 19 lockdown, there was some testing that was unable to be completed (refer to page 19 of Attachment A). Audit NZ has advised this work will be completed as part of the final audit fieldwork.
- 4 Council staff will continue to work to implement/resolve the recommendations from previous audits. Attachment A of the report, updates the status of these recommendations. Of the 25 recommendations, five have been implemented or closed, eight will be followed up in the final audit and 12 are still open, with some just requiring confirmation by the auditors of their completion when they are onsite for the final audit.

### Recommendation

**That the Finance and Assurance Committee:**

- a) **Receives the report titled "Interim Management Report from Audit New Zealand for the year ended 30 June 2020" dated 16 June 2020.**

### Attachments

- A Interim Audit Report from Audit New Zealand for the year ended 30 June 2020 [📄](#)

AUDIT NEW ZEALAND  
Mana Arotake Aotearoa

# Report to the Councillors on the interim audit of

Southland District Council

For the year ending 30 June 2020

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## Key messages

We have completed our interim audit for the year ending 30 June 2020. This report sets out our findings from the interim audit.

The primary purpose of our interim audit visit is to update our understanding of the Southland District Council's (the Council) control environment, identify any control improvements required and confirm the extent to which we can rely on the controls in place for the Council. Our findings indicate 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 management and staff for the assistance received during the audit, especially given the circumstances with the audit taking place during the COVID-19 lockdown.



Dereck Ollsson  
Appointed Auditor  
12 June 2020

## 1 Recommendations



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

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

### 1.1 New recommendations

Based on the work performed for the interim audit for 2020 June year end, there are no new recommendations noted.

### 1.2 Status of previous recommendations

Set out below is a summary of the action taken against previous recommendations. Appendix 1 sets out the status of previous year's recommendations in detail.

Priority	Priority			
	Urgent	Necessary	Beneficial	Total
Open	0	9	3	12
Implemented or closed	0	3	2	5
Matters that will be followed up during our final audit visit	0	6	2	8
<b>Total</b>	<b>0</b>	<b>18</b>	<b>7</b>	<b>25</b>

## 2 Assessment of internal control



The Councillors, with support from management, are responsible for the effective design, implementation, and maintenance of internal controls. Our audit considers the internal control relevant to preparing the financial statements and the service performance information. We review internal controls relevant to the audit to design audit procedures that are appropriate in the circumstances. Our findings related to our normal audit work, and may not include all weaknesses for internal controls relevant to the audit.

### 2.1 Control environment

The control environment reflects the overall attitudes, awareness and actions of those involved in decision-making in the organisation. It encompasses the attitude towards the development of accounting and performance estimates and its external reporting philosophy, and is the context in which the accounting system and control procedures operate. Management, with the oversight of those charged with governance, need to establish and maintain a culture of honesty and ethical behaviour through implementation of policies, procedures and monitoring controls. This provides the basis to ensure that the other components of internal control can be effective.

We have performed a high level assessment of the control environment, risk management process, and monitoring of controls relevant to financial and service performance reporting. We considered the overall attitude, awareness, and actions of the Councillors and management to establish and maintain effective management procedures and internal controls.

We consider that a culture of honesty and ethical behaviour has been created. The elements of the control environment provide an appropriate foundation for other components of internal control.

### 2.2 Internal controls

Internal controls are the policies and processes that are designed to provide reasonable assurance as to the reliability and accuracy of financial and non-financial reporting. These internal controls are designed, implemented and maintained by the Councillors and management.

We reviewed the internal controls, in your information systems and related business processes. This included the controls in place for your key financial and non-financial information systems.



Internal controls	Findings
Revenue - rates	<p>Key systems and controls over the rates system are operating as intended.</p> <p>We noted no control breakdowns or issues that require us to bring to your attention.</p>
Other revenue	<p>Key systems and controls over other revenue system are operating as intended.</p> <p>We noted no control breakdowns or issues that require us to bring to your attention.</p>
Expenditure	<p>Key systems and controls over the various expenditure systems are operating as intended.</p> <p>We noted the following control breakdowns or issues that require us to bring to your attention.</p> <p>The first part of the year until 10 March 2020, the system allowed for a single user to raise a purchase order and approve it, if it is within their delegated authority limit. The Council has implemented a process where all purchase orders raised and approved by the same person are independently reviewed.</p> <p>Tests have been performed on purchase orders for the first part of the year where changes to the control were not yet implemented. We however did not identify any purchase orders that were raised and approved by the same person.</p> <p><b>Recommendation</b></p> <p>The Council should continue to tighten controls to ensure that the system does not allow the same person to raise and approve a purchase order.</p> <p><b>Management comment</b></p> <p><i>Council disabled this function in the purchase order system on 10<sup>th</sup> of March 2020. The system now does not allow the same person to raise and approve a purchase order.</i></p>
Payroll	<p>Key systems and controls over the payroll processing function are operating as intended.</p> <p>Due to the limitation posed by the alert level 4 lockdown, inspection of manual signed copies of reconciliations and other manual documents will be performed at final.</p>
Property, plant and equipment	<p>We reviewed the property, plant and equipment processes and systems. As we have highlighted in prior years, no regular fixed asset register reconciliations is performed during the course of the year.</p>

Internal controls	Findings
	<p>In addition, the Council does not have an asset disposal policy in place and this presents a risk of misappropriation of the Council's assets.</p> <p><b>Our prior year recommendations were also as follows:</b></p> <ul style="list-style-type: none"> <li>• To implement controls to appropriately recognise all disposals of assets and new vested assets, to ensure assets are appropriately updated the fixed asset register.</li> <li>• To review the property, plant and equipment accounting policies to ensure the depreciation method and the depreciation rates applied to asset additions are reasonable. This includes considering the appropriateness of having a separate table for SIESA, as this is not a separate entity to the District Council; regularly reassess the depreciation rates of assets to ensure they are reasonable and reflect current information of the District Council's intended use for the asset.</li> <li>• To complete a review of the fixed asset register and a stocktake of assets to ensure that all assets reported with nil book value are still in use; and</li> <li>• To de-recognise and remove the assets from the fixed assets register if these are not in existence anymore.</li> </ul> <p><b>Management comment</b></p> <p><i>Council Staff undertake a full reconciliation of assets at year end to ensure accurate records, this is deemed adequate based on the general review of asset codes during the year and the specific monitoring noted below. In regards to the monitoring of assets, staff apply a misappropriation risk based approach plus the requirement that all procurement must be approved by someone other than the purchaser, noting that 98% of Council assets are related to infrastructure. This has resulted in a monthly reconciliation of vehicles. Quarterly review of all Council property going forward, as a result of the full review over the last 18 months.</i></p> <p><i>Further work will be undertaken for Councils IT assets but currently all computers and phones are tracked. No formal identification system exists or is planned for Council's furniture and fittings as generally this is limited to desks, chairs and shelving.</i></p> <p><i>The asset disposal policy will be completed by 30 June 2021. The process for disposal of vehicles is currently</i></p>

Internal controls	Findings
	<p><i>included in Council's vehicle policy. Property disposals are sold in accordance with legislative requirements, Council resolution or delegated authority.</i></p> <p><i>Comments on prior year recommendations are noted in appendix 1.</i></p>
<b>Reconciliations for key accounts</b>	<p>We have not managed to perform most of our tests on reconciliations and the review there of due to the limitations posed by alert level 4 lockdown. This will be performed at final audit and findings will be documented in the final report to Council.</p>
<b>Journal processing</b>	<p>Further improvements could be made to the journals processing system.</p> <p>In some instances users are required to prepare and post their own journals which are subsequently independently reviewed.</p> <p>There is a risk that any inappropriate journals posted would not go through the review process and could be undiscovered in the general ledger. A report would address this risk, ensuring all journals have been through appropriate checks.</p> <p><b>Our prior year recommendations were as follows:</b></p> <p>To further enhance this process we recommend a report be run each month, reviewed and evidenced as such to ensure all journals are captured and all journals that are in the system are bonafide.</p> <p><b>Management comment</b></p> <p><i>The report will be run monthly and has been included in our month end review process from May 2020.</i></p>
<b>Related parties</b>	<p>We completed a Companies Register search and identified several interests that had not yet been updated in the interest register for Council members and KMP.</p> <p><b>Management comment</b></p> <p><i>Point noted. It will be added to governance and democracy business plan and followed up by the newly appointed Governance &amp; Democracy Manager.</i></p>

### 3 Other findings from our interim audit

#### 3.1 Quality and timeliness of information provided for audit



Management is required to provide information for audit. We provided a listing of information we required to management on 20 March 2020. This included the dates we required the information to be provided to us.

The information was provided to us on time and was of good quality. We appreciate the work the Council did to enable us to continue the interim audit as scheduled during the national lockdown.

#### 3.2 Service performance information

The Council is required to report against its 2018-28 long-term plan which includes a set of mandatory performance measures covering water supply, wastewater, storm water drainage, flood protection and roading and footpath activities.

The Council implemented the CAMM's performance reporting tool in 2018 which has improved the transparency of information and performance measures. As part of our interim audit, we reviewed a number of performance measures to ensure the tool did not provide any loss of audit trail and found no issues in tracing measures back to supporting documentation. Therefore we have concluded that there is appropriate service performance reporting processes in place for CAMM.

#### 3.3 Internal audit

From enquiries held with management we note that management established an internal audit function via outsourcing to Deloitte. An agreement was signed between the Council and Deloitte together with a three year audit plan (2019 - 2021) which shows the areas the firm will tackle and the planned timelines. We endorse the establishment of the internal audit function as it is vital to the internal control environment of the Council in terms of monitoring the effectiveness of internal controls. The next step for the Council is to ensure it timeously reviews the reports from the internal audit function and prepares action plans to track the progress of recommendations made by internal audit.

#### 3.4 Procurement management

Deloitte was engaged in 2019 to perform work on the procurement process of the Council. We have reviewed their findings in which they provided a number of recommendations to further improve procurement controls and processes. Our understanding is that this report has not yet been presented to the Council but has however been discussed at the Audit and Risk Committee meeting and circulated among management. We expect the Council to accept the report and implement the recommendations. We will follow up progress on this at the final audit.

### 3.5 Ethics and Integrity

Throughout our planning process and interim testing, we assessed whether the Council has the right controls, policies, and processes in place to ensure the Council is effective and trusted. Based on the work done, we conclude that the Council has the right controls, policies and processes in place. We have reported on controls which are not operating effectively, however these pose a low risk on the ethics and integrity of the Council.

Transparency, honesty and accountability have been witnessed in the Council's minutes where several strategic issues are discussed and debated. These include financial reports, project reports, budgets and community feedback to name a few. Furthermore, the establishment of the internal audit function, through outsourcing, shows:

- creation and promotion of transparent ethical behaviour; and
- management's need to have an independent assessment of controls and processes in order to mitigate risks.

#### **Recommended**

The Council should continue to work on recommendations raised by internal and external audit, as well as ensure policies are updated.

## 4 Adoption of new accounting standards



Public benefit entities must apply the new “group” accounting standards, PBE IPSAS 34 *Separate Financial Statements*, PBE IPSAS 35 *Consolidated Financial Statements*, PBE IPSAS 36 *Investments in Associates and Joint Ventures*, PBE IPSAS 37 *Joint Arrangements*, and PBE IPSAS 38 *Disclosure of Interest in Other Entities*, in preparing their 30 June 2020 financial statements.

Management is responsible for performing the necessary transition work to successfully implement these new standards. Areas of focus with the transition include:

- Assessing whether the revised control definition and guidance result in an entity being assessed as controlled under PBE IPSAS 35 for those entities previously assessed as not controlled under prior standards. For example, trusts established by the Council that support the Council in achieving its objectives.
- Determining whether a joint arrangement is categorised as a joint venture or joint operation. Joint ventures must be accounted for using the equity method.
- Updating the “group” accounting policies and “group” related disclosures in the financial statements. PBE IPSAS 38 generally requires more disclosure about interests in other entities than the previous standards.
- Implementing changes to systems and processes that may be necessary to support changes in accounting practices.
- Keeping relevant parties informed, such as your auditor and audit committee.

The transition to these new standard may require significant judgement for some arrangements and maybe particularly time consuming for those entities with a large number of potentially controlled entities. It is important that management substantially completes its transition work on these new standards well in advance of 30 June 2020. We recommend that as part of this, management prepare pro-forma financial statements so that revised group-related disclosures can be agreed.

We encourage the Council to share its transition plan and transition work with us early in the audit process so we can agree issues and adjustments in a timely manner.

## 5 Useful publications



Based on our knowledge of the Local Authority, we have included some publications that the Councillors and management may find useful.

Description	Where to find it
<b>Client updates</b>	
<p>In March and April 2019, we hosted a series of client updates. The theme was "Improving trust and confidence in the public sector".</p> <p>These included speakers from both Audit New Zealand and external organisations.</p>	<p>On our website under publications and resources.</p> <p>Link: <a href="#">Client updates</a></p>
<b>Model financial statements</b>	
<p>Our model financial statements reflect best practice we have seen to improve financial reporting. This includes:</p> <ul style="list-style-type: none"> <li>• significant accounting policies are alongside the notes to which they relate;</li> <li>• simplifying accounting policy language;</li> <li>• enhancing estimates and judgement disclosures; and</li> <li>• including colour, contents pages and subheadings to assist the reader in navigating the financial statements.</li> </ul>	<p>On our website under publications and resources.</p> <p>Link: <a href="#">Model Financial Statements</a></p>
<b>Client substantiation file</b>	
<p>When you are fully prepared for an audit, it helps to minimise the disruption for your staff and make sure that we can complete the audit efficiently and effectively.</p> <p>We have put together a tool box called the Client Substantiation File to help you prepare the information you will need to provide to us so we can complete the audit work that needs to be done. This is essentially a tool box to help you collate documentation that the auditor will ask for.</p>	<p>On the OAG's website under publications and resources.</p> <p>Link: <a href="#">Client Substantiation File</a></p>

Description	Where to find it
<b>Matters arising from the 2017/18 audits</b>	
The OAG has published a report on the results of the 2017/18 audits for the sector.	On the OAG's website under publications. Links: <a href="#">Recent publications</a>
<b>Good practice</b>	
<p>The OAG's website has been updated to make it easier to find good practice guidance. This includes resources on:</p> <ul style="list-style-type: none"> <li>• audit committees;</li> <li>• conflicts of interest;</li> <li>• discouraging fraud;</li> <li>• good governance;</li> <li>• service performance reporting;</li> <li>• procurement;</li> <li>• sensitive expenditure; and</li> <li>• severance payments.</li> </ul>	On the OAG's website under good practice. Link: <a href="#">Good practice</a>
<b>Post-implementation reviews</b>	
The OAG have recently completed a review of Auckland Council's post-implementation review process. While many aspects of the report are specific to Auckland Council, it documents the process that Auckland Council uses, and includes a post-implementation review checklist.	On the OAG's website under publications. Link: <a href="#">Post-implementation review process</a>
<b>Reporting fraud</b>	
The OAG have released data from 2012-2018 on fraud in public entities. This includes how the fraud was detected, the type of fraud and the methods and reasons for the fraud. The graphs show the high-level sector, and this can be broken down further into sub-sectors by opening the spreadsheets available.	On the OAG's website under data. Link: <a href="#">Reporting Fraud</a>



## Appendix 1: Status of previous recommendations

### Open recommendations

Recommendation	First raised	Status
<b>Necessary</b>		
<p><b>Property, plant and equipment policies and procedures</b></p> <p>Ensure that the Council review and update the policies and procedures around fixed assets which include to:</p> <ul style="list-style-type: none"> <li>• implement controls to appropriately recognise all disposals of assets and new vested assets, to ensure assets are appropriately updated the fixed asset register;</li> <li>• review the property, plant and equipment accounting policies to ensure the depreciation method and the depreciation rates applied to asset additions are reasonable. This includes considering the appropriateness of having a separate table for SIESA, as this is not a separate entity to the District Council; regularly reassess the depreciation rates of assets to ensure they are reasonable and reflect current information of the District Council's intended use for the asset;</li> <li>• complete a review of the fixed asset register and a stocktake of assets to ensure that all assets reported with nil book value are still in use; and</li> <li>• de-recognise and remove the assets from the fixed assets register if these are not in existence anymore.</li> </ul>	2018	<p><b>Open</b></p> <p>Our testing showed that the recommendations are still open.</p> <p><b>Management comment</b></p> <p><i>In regards to point one: the disposals of roading assets is undertaken and a new unique asset number given. The confusion on this point has come from the additional use of a number to identify the location of the asset, which does not alter if the location is still the same but the type of asset changes. Staff have forwarded to you supporting records to resolve this issue.</i></p> <p><i>Staff note the comments in regards to vested assets and will undertake the necessary checks.</i></p> <p><i>Point two: After considering the recommendation staff agree to combine SIESA assets into the overall note. Checks will also be put in place to update any depreciation rate changes</i></p> <p><i>Point three: Activity managers undertake this review annually.</i></p> <p><i>Point four: once identified the assets would be removed.</i></p>
<p><b>Procurement</b></p> <p>We recommend that there should be good oversight and coordination of staff with devolved procurement responsibilities. This ensures the central management of</p>	2018	<p><b>In progress</b></p> <p>From discussions with management the policy is still under review and is expected to be adopted later this year. The policy is being developed</p>

Recommendation	First raised	Status
<p>procurement risks and legal compliance issues.</p> <p>We also recommend that the review of the Procurement Policy be finalised as it has been on-going for some years now.</p>		<p>to ensure good oversight and coordination of staff is managed.</p> <p><b>Management comment</b></p> <p><i>Anticipated to be completed and adopted by 31 December 2020.</i></p>
<p><b>Project management</b></p> <p>We recommend the development of a project management framework ahead of the recommencement of the Council's significant capital projects as the framework will outline the methodology and procedures to follow in order to complete projects within budgets.</p>	2018	<p><b>In progress</b></p> <p>The Council has implemented CAMM's project tool which will be used to monitor project success. At this stage the tool is not integrated with the financial management system to allow for monitoring against budget, however this reconciliation will occur manually until integration is achieved.</p> <p><b>Management comment</b></p> <p><i>The project management framework has been implemented.</i></p> <p><i>Project workflows, programming, monitoring and reporting is active.</i></p> <p><i>Staff are continuing to work with CAMMS to see if appropriate financial integration is possible.</i></p>
<p><b>Contract management</b></p> <p>We recommend the development of a formalised approach to contract management and develop a Contract Management Policy.</p>	2018	<p><b>Open</b></p> <p>There has been no progress at present in relation to a policy for contract management. From discussions with management contract managers have now been established in each activity team which will improve contract management approach.</p> <p><b>Management comment</b></p> <p><i>A Contract Management Policy is anticipated to be established by 30 June 2021.</i></p>
<p><b>Policy development and review</b></p> <p>Ensure all policies are up to date and periodically reviewed.</p>	2017	<p><b>In progress</b></p> <p>We recognise the Council has made significant efforts to update a number of frameworks and policies</p>

Recommendation	First raised	Status
		<p>in the current year such as conflicts of interest, sensitive expenditure, risk management and project management. From discussions with management the remaining out of date policies such as procurement and contract management are scheduled to be updated.</p> <p>The Fraud Policy is not due to be reviewed until later in 2020 and will consider our recommendations to add additional sections.</p> <p><b>Management comment</b></p> <p><i>The policy review dates are indications of when the policy should be reviewed. Due to work commitments and the time needed to ensure the appropriate consideration is taken it is not always possible to review the policies by the dates indicated. Staff do prioritise policies on a risk based approach.</i></p>
<p><b>New Zealand Transport Agency (NZTA) audit</b></p> <p>In 2019 year NZTA completed two audits on the Council's investment performance. We would like to draw attention to a couple of NZTA's recommendations on the procurement strategy and late tender policy. NZTA recommended that the Council updates their procurement strategy to reflect the NZTA in-house professional service policy requirements and that the updated strategy document should be endorsed by NZTA. NZTA also recommended that the late tenders' policy is included in all contract tender documents.</p>	2017	<p><b>In progress</b></p> <p>The Council Procurement Policy is in the process of being updated as part of the Project Management Platform development.</p> <p><b>Management comment</b></p> <p><i>Through the revision to the procurement policy particular attention has been paid to alignment (or otherwise) with NZTA procurement policies in order to ensure clarity is provided for the procurement of transportation activities. Further, a clause regarding later tenders' has been included in contract tender documentation.</i></p>
<p><b>Expenditure system</b></p> <p>Separate the preparer/approver functions within the purchase order system.</p>	2019	<p><b>Open</b></p> <p><b>Management comment</b></p>

Recommendation	First raised	Status
		<i>Council disabled this function in the purchase order system on 10<sup>th</sup> of March 2020. The system now does not allow the same person to raise and approve a purchase order.</i>
<b>Journal processing</b> Run reports to ensure all journals prepared and posted by the same user are independently checked.	2019	<b>Open</b> <b>Management comment</b> <i>The report will be run monthly and has been included in our month end review process from May 2020.</i>
<b>Related parties</b> All interests are declared in the Interest Register. The Council performs a search of Companies' Office, Charities Register and Incorporated Entities Register to ensure completeness.	2018	<b>Open</b> Our testing showed a number of interests not disclosed. <b>Management comment</b> <i>Point noted. It will be added to governance and democracy business plan and followed up by the newly appointed Governance &amp; Democracy Manager.</i>
<b>Beneficial</b>		
<b>Fraud risk</b> We recommend the District Council continues to address recommendations made in the report by the external contractor to further reduce opportunities identified for fraud, corruption and error.	2018	<b>Open</b> The Fraud Policy has not yet been updated to include the principle to recover lost money or other property. As reflected above, we believe this will be considered to be included when the policy is up for review later in 2020. <b>Management comment</b> <i>Staff are continuing to review and implement the recommendations. A report is going to the Finance and Assurance committee on the 22 June 2020 outlining the progress made to date.</i>
<b>Formal information services (IS) agreement</b> Develop a formal agreement with Invercargill City Council (ICC) for the information systems services they provide.	2017	<b>Open</b> There is still no formal IS agreement in place but planning has been completed for migrating the remaining servers hosted by ICC back to the Council. We note that the

Recommendation	First raised	Status
		<p>intent is still to move the Pathway server back to the Council.</p> <p><b>Management comment</b></p> <p><i>Progress to move the server is continuing, there was a delay due to COVID-19 lockdown, it is now planned for 13 June 2020.</i></p>
<p><b>No formal disaster recovery plan in place</b></p> <p>The Council should develop a disaster recovery plan that will meet business requirements in the event of a disaster. Once developed this should be tested to ensure it would be effective in supporting the Council in the event of a disaster.</p>	2018	<p><b>Open</b></p> <p>There is still no formal disaster recovery plan in place but the Council are busy reviewing their production systems and software applications with the intent of preparing a draft by the end of the 2019 calendar year.</p> <p><b>Management comment</b></p> <p><i>Finalisation of the business continuity plan template has been delayed due to further staff changes. The timing and level of priority to be given to progressing development of this work will be considered in the 2020/21 financial year.</i></p> <p><i>Progress is occurring with a shared service solution with Environment Southland, Invercargill City Council and Southland District Council to obtain a back-up and disaster recovery solution to mitigate this risk. Business case is complete and at point of being presented to ELT for review.</i></p>

## Implemented or closed recommendations

Recommendation	First raised	Status
<b>Necessary</b>		
<b>Sensitive expenditure</b> We recommend the Sensitive Expenditure Policy to be updated to include all OAG good practice guidelines and ensure the enforcement of the policies.	2019	<b>Closed</b> <i>Management is of the view that the issues raised do comply with the existing policy as they fall under section 3.11. Entertainment and hospitality section of the Sensitive Expenditure Policy rather than section 3.6 Accommodation, meals and beverages while away on Council business.</i> <i>The Sensitive Expenditure Policy was last reviewed in October 2018 and a review schedule is in place.</i> <i>Management do not see value in initiating a further review at this time as it will be up for review next year.</i>
<b>Capitalisation of employee expenses</b> Implement a formal time tracking system with appropriate approvals from managers for large capital projects for which employee time is being capitalised.	2019	<b>Closed</b> Management consider that a formal tracking system is not required particularly given the small number of large capital works projects undertaken by the organisation. Where a decision is made to capitalise labour then staff will look to ensure that there is an appropriate justification for the decision made. A new formal time tracking system would be at an additional cost and resource. Management comment accepted and issue closed.
<b>Lack of formal agreement between One Forest and the Council</b> One Forest is responsible for the management of revenue and harvesting costs for the District Council. There is no formal current agreement in place between these two entities. The agreement should outline the nature of the relationship	Interim 2019	<b>Closed</b> A contract is in place from 1 July 2019.

Recommendation	First raised	Status
<b>Necessary</b>		
<p>between the two entities, including the relevant contractual terms for the activities undertaken.</p> <p>We note that going forward Council have an agreement in place from 1 July 2019.</p> <p>We recommend that Council ensure in future a contract is implemented between One Forest and the Council which includes the nature of the relationship, and relevant contractual terms.</p>		
<b>Beneficial</b>		
<p><b>Super user accounts</b></p> <p>Reset administrator password and reduce dependence on this account.</p>	2017	<p><b>Closed</b></p> <p>The administration password has been changed.</p>
<p><b>Bribery and corruption</b></p> <p>Parliament's Finance and Expenditure Committee expressed an interest in understanding whether the public sector has effective corruption prevention and detection processes in place. As part of our audit work this year, we identified what controls are in place to reduce the risk of wrongdoing, with an emphasis on bribery and corruption.</p> <p>In our view, the code of conduct and the ethical guidelines could better explain what bribery and corruption is, and as a result, could more clearly set out the expectations of employees and contractors should bribery or corruption be identified.</p>	2019	<p><b>Closed</b></p> <p>Management and the Council have noted that they accept to have a bribery and corruption policy included as part of the Fraud policy that was updated in 2018. The Council has been made aware of this audit finding and consider there to be no further risk and the matter closed.</p>

## Recommendations we will follow up at the final audit

Recommendation	First raised	Status
<b>Necessary</b>		
<b>Revaluation of property, plant and equipment</b>  The Roading valuer has applied the March index price inflation factor to adjust for the movement in costs each year. This is inconsistent with the Water revaluation which extrapolates the March index factor to estimate the June quarter movement. We recommend that the District Council applies extrapolated June quarter movement consistently.  Perform a comprehensive review and challenge the assumptions and methodology applied in the valuations to ensure they reflect the most reliable and recent information available.	2019	<b>Open</b>  To assess at final as the audit team are to be onsite for this.
<b>Service performance reporting</b> <ul style="list-style-type: none"> <li>Count follow up calls from the same caller on the same matter as an additional complaint.</li> <li>Some KPI's have mandated wording and measures, council has chosen to vary some of these and reports that it considers a "Dry Weather" in relation to sewage overflows as 72 hours with catchment rainfall, national practice is 24 hours. We recommend that the Council update their wording in the future annual plans to comply with DIA measures.</li> </ul>	2019	<b>Open</b>  To assess at final as the audit team are to be onsite for this.
<b>Expenditure delegations</b>  Update the delegations document to require one-up approval and to specify who approves senior management and governance's "sensitive" expenditure.	2019	<b>Open</b>  To assess at final as the audit team are to be onsite for this.
<b>Expenditure delegations (system)</b>  Review the delegations work flow process in the financial management system.	Interim 2019	<b>Open</b>  To assess at final as the audit team are to be onsite for this.



Recommendation	First raised	Status
<b>Journal processing</b> Periodically review access rights to users who can post to the general ledger.	2019	<b>Open</b> To assess at final as the audit team are to be onsite for this.
<b>Untimely review of bank reconciliations</b> We recommend that the month end bank reconciliations be reviewed timely at least within five days after the date of preparation.	2018	<b>Open</b> Still to test bank reconciliations for the year 2020 at final. Refer to point 2.2 above.
<b>Beneficial</b>		
<b>Debtor Classification between Exchange vs Non-Exchange</b> Establish an appropriate quality assurance process to ensure the correct classification of debtors between exchange vs non exchange transactions.	2019	<b>Open</b> To assess at final.
<b>Unaudited associate and joint operations EMS and WasteNet</b> Ensure that Council obtain and complete financial information from its associated and joint operations annually, as well as obtain assurance over the results.	2019	<b>Open</b> To assess at final.

## Appendix 2: Disclosures

Area	Key messages
Our responsibilities in conducting the audit	<p>We carry out this audit on behalf of the Controller and Auditor-General. We are responsible for expressing an independent opinion on the financial statements and performance information. This responsibility arises from section 15 of the Public Audit Act 2001.</p> <p>The audit of the financial statements does not relieve management or the Councillors of their responsibilities.</p> <p>Our audit engagement letter contains a detailed explanation of the respective responsibilities of the auditor and the Councillors.</p>
Auditing standards	<p>We carry out our audit in accordance with the Auditor-General's Auditing Standards. The audit cannot and should not be relied upon to detect every instance of misstatement, fraud, irregularity or inefficiency that are immaterial to your financial statements. The Councillors and management are responsible for implementing and maintaining systems of controls for detecting these matters.</p>
Auditor independence	<p>We are independent of the Council in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): <i>Code of Ethics for Assurance Practitioners</i>, issued by New Zealand Auditing and Assurance Standards Board.</p> <p>To date, other than the audit, we have no relationship with, or interests in, the Council.</p>
Fees	<p>The audit fee for the year is \$128,624 (excluding GST), as detailed in our Audit Proposal Letter.</p> <p>To date, no other fees have been charged in this period.</p>
Other relationships	<p>To date, we are not aware of any situations where a spouse or close relative of a staff member involved in the audit occupies a position with the Council that is significant to the audit.</p> <p>We are not aware of any situations to date where a staff member of Audit New Zealand has accepted a position of employment with the Council during or since the end of the financial year.</p>





## Draft Annual Plan 2020/2021

**Record No:** R/20/5/11773  
**Author:** Jason Domigan, Corporate Performance Lead  
**Approved by:** Rex Capil, Group Manager Community and Futures

☐ Decision ☒ Recommendation ☐ Information

### Purpose

- 1 The purpose of the report is for the Finance and Assurance committee to review the final draft of the Annual Plan 2020/2021 and recommend to Council its adoption.

### Executive Summary

- 2 Every three years, council adopts a ten year plan which is referred to as the 'Long Term Plan (LTP)'.
- 3 In the intervening years, an Annual Plan is developed to address any variances from the LTP, to confirm service levels and budgets for the year, and to set rates. Year three of the Council's LTP 2018-2028 serves as the base for the Annual Plan 2020/2021.
- 4 All councils are required by legislation to prepare and adopt an Annual Plan for each financial year before the start of the new financial year. The Annual Plan is not audited.
- 5 The 2020/2021 Annual Plan did not have any significant or material variances between year three of the LTP 2018-2028. As a result, it was agreed by Council not to go out to the public for formal consultation with the community.
- 6 Council did produce an annual plan information document and used social media and the council website to update the community on the Annual Plan process.
- 7 The global Covid-19 pandemic has potentially led to increased pressure on rate affordability. Additional measures were used to reduce the impact of increased rates on communities, including utilisation of forestry and roading reserves.
- 8 The rate increase for 2020/2021 financial year is proposed to be 2.31%, compared to the 3.27% proposed in the LTP 2018-2028.
- 9 It is intended that the committee recommends to Council the adoption of the Annual Plan 2020/2021, including the Funding Impact Statement (Rates section) for the 2020/2021 financial year.
- 10 A copy of the draft Annual Plan 2020/2021 is included separately.

## Recommendation

**That the Finance and Assurance Committee:**

- a) Receives the report titled “Draft Annual Plan 2020/2021” dated 16 June 2020.**
- b) Determines that this matter or decision be recognised as 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) Confirms in accordance with Section 100 of the Local Government Act 2002 that the Annual Plan 2020/2021 has been prepared based on reasonable judgement and assumptions and that it considers the projected financial results, including the projected operating deficit for 2020/2021, to be financially prudent given its financial position.**
- e) Confirms the reduction of the Te Anau Airport Manapouri rate from \$128.00 (incl GST) to \$67.69 (incl GST). Noting this reduction is being done by extending the airport loan by one year and deferring the 2020/2021 airport loan repayment and by funding the interest charge by adding it to the airport loan balance to be repaid over the life of the loan.**
- f) Acknowledges that resolution e above, is inconsistent with Council’s Revenue and Financing policy as it is funding an operational cost from a loan. Accordingly Council recognise that this as an inconsistent decision made in accordance with section 80 of the Local Government Act 2002.**
- g) Notes that resolution e above is in response to the potential financial impact of Covid-19 on affordability of rates, particularly in the Fiordland rating area. A review of the Revenue and Financing policy will be undertaken as part of Council’s 2021-2031 Long Term Plan, but at this stage there are no plans to alter the policy to generally allow the funding of operational costs from loans.**
- h) Recommends to Council the adoption of the Annual Plan 2020/2021, including the Funding Impact Statement (Rates section) for the 2020/2021 financial year.**
- i) Recommends to Council that a copy of the finalised fees and charges booklet be made available on Council’s website and be distributed to relevant stakeholders, Hall Committees and Community Boards for their information.**

## Background

- 11 Once every three years, Southland District Council is required to adopt a Long Term Plan (LTP), and in the intervening years an Annual Plan. These plans set out the service levels and budgets for the coming year, as well as being used to set rates.
- 12 Year three of the Council’s LTP 2018-2028 serves as the base for the Annual Plan 2020/2021.

- 13 The Annual Plan 2020/2021 proposed rates increase is broadly consistent with what was projected for the 2020/2021 year in the LTP 2018-2028.
- 14 The majority of changes relate to capital works projects for roading, sewerage and water renewals and changes in operational costs. These capital works projects were already included in the LTP 2018-2028 and budget included within the work programme.
- 15 All councils are required by legislation to prepare and adopt an Annual Plan for each financial year before the start of the new financial year. The Annual Plan is not audited.
- 16 The purpose of an Annual Plan is to:
- detail the proposed annual budgets and funding impact statement;
  - identify any variation from the financial statements and funding impact statement included in the Long Term Plan (LTP) in respect of the year;
  - provide integrated decision-making and co-ordination of the resources of the local authority;
  - contribute to the accountability of the local authority to the community.
- 17 As part of developing the Annual Plan, community boards and water supply subcommittees were provided with the opportunity at their direction-setting meetings to highlight any planned changes for the 2020/2021 financial year from what was budgeted for year three of the Long Term Plan 2020/2021. Hall committees and Council staff were also asked to advise of any changes to fees and charges for the 2020/2021 year.
- 18 On 17 December 2019, Council informally discussed a number of key matters associated with the 2020/2021 Annual Plan, including:
- proposed fees and charges
  - grants and donations
  - planned capital projects for 20/21
  - roading rate model
  - key financial matters, including loans, reserves, forestry dividend and SIESA
  - impact on the overall and specific rates for 2020/2021
- 19 At its meeting on 30 January 2020, Council formally considered the need for consultation on the 2020/2021 Annual Plan. Council confirmed there was no community consultation required for the Annual Plan 2020/2021 as there were no significant variances to the LTP 2018-2028. This was in accordance with the Significance and Engagement Policy that was adopted in June 2018 through the LTP process.
- 20 On 11 March 2020, the World Health Organisation (WHO) declared Covid-19 as a global pandemic. The government devised a series of alert levels with associated restrictions ranging from 1 to 4 with 4 being the most severe. In New Zealand, the nation went into lockdown at alert level 4 for the period of 25 March to 27 April with only essential services running and the

majority of New Zealanders staying at home to help reduce the spread of Covid-19. The country then moved to alert level 3 for 16 days before moving to alert level 2.

- 21 The Covid-19 pandemic may have severe social disruption and financial impacts including potential economic recession and increased unemployment.
- 22 Given the impact of Covid-19 on the wider community it was important for Council to consider rates affordability and try to minimise the level of proposed rates increase.
- 23 Further discussions were held between January and March to review operational budgets and to also consider the wider implications of the Covid-19 pandemic.
- 24 At the 22 April council meeting, revised guidance was given for the direction of the Annual Plan 2020/2021 and the budgets including the following summary of the key resolutions below:
  - progress the work on the Annual Plan on the basis of a 2.65% proposed rate increase noting that while it differs from year three of the LTP, it does not constitute a significant or material change
  - endorse the revised project plan
  - endorse the reduction of the Te Anau Airport Manapouri rate from \$128.00 (incl GST) to \$67.69 (incl GST).
  - recognise that the proposed reduction in the Te Anau Airport Manapouri rate above is inconsistent with Council's Revenue and Financing policy.
  - notes that the above reduction in the Te Anau Airport Manapouri rate is proposed in response to the potential financial impact of Covid-19 on affordability of rates, and a review of the Revenue and Financing policy will be carried out as part of its 2021-2031 Long Term Plan.
- 25 Subsequent to the 22 April council meeting, the Fiordland Community Board agreed at its meeting on 19 May 2020 to recommend the reduction in the airport rate from \$128.00 (incl GST) to \$67.69 (incl GST).
- 26 Further informal discussions on the draft Annual Plan were held on 20 May which presented the full draft annual plan to Councillors for their review. This version of the accounts included the impact of the reduction in the Te Anau Airport Manapouri rate, which resulted in a proposed overall rate increase of 2.31% (from 2.65% as previously advised). Councillors were also given a preview of the design theme of the final document.

### Consultation and feedback

- 27 There was no community consultation for the Annual Plan 2020/2021 as there were no significant variances to the LTP 2018-2028. This was in accordance with the Significance and Engagement Policy that was adopted in June 2018 through the LTP process.
- 28 However, an Annual Plan information document was produced to update the public on the proposed direction and proposed rates increase. The document was put on the Council website and facebook.
- 29 The Annual Plan information document post on facebook reached 2,827 people, had 119 engagements and received feedback from one member of the public who submitted three comments in total, expressing adverse opinion.



**Changes from year three of the LTP 2018-2028**

- 30 The majority of the changes between what was forecasted in the 2020/2021 year in the LTP 2018-2028 from what has been included in the draft Annual Plan 2020/2021 relate to capital works projects. Key changes include:
- the deferral/addition from 2019/2020 of \$4.1 million of water capital projects (Lumsden/Balfour, Manapouri, Riverton, Te Anau) to be implemented in 2020/2021.
  - the deferral/addition from 2019/2020 of \$12.5 million of wastewater capital projects (Ohai, Riversdale, Riverton, Stewart Island, Te Anau) noting that Te Anau represents \$11.3 million of this increase (of which \$2 million is funded from a government grant) to be implemented in 2020/2021.
  - Council's 2020/2021 contribution to the Pyramid Bridge replacement (\$0.3 million)
  - \$1 million emergency roading works as a result of the February 2020 floods
  - \$1.5 million of bridge renewals
  - refurbishment/fit out of the Don Street office (\$0.9 million).
- 31 Additionally, there are a number of changes to operational costs from what was forecast in the LTP 2018-2028 for 2020/2021. Key operational changes include:
- increased water maintenance costs (\$0.3 million)
  - increased rubbish and recycling costs, including Emission Trading Scheme (\$0.3 million)
  - \$1.8 million Milford Opportunities project costs (fully funded by government grants)
  - additional contractors required to assist with building regulation activities (\$0.5 million), partially offset by increased revenue
  - lease of two Don Street offices and associated costs (\$0.4 million)
  - increased costs to meet new regulatory standards (\$1.9 million)
  - loss of revenue from Venture Southland (\$0.3 million)
  - reduction in internal loan repayments (\$0.3 million)
  - increase in external loan repayments (\$0.1 million).
- 32 Where appropriate, loan funding is used to fund capital expenditure with the following reserve transfers being utilised to reduce the impact on the 2020/2021 rates increase:
- transfer from the forestry reserve to reduce rates (\$0.4 million)
  - utilisation of the roading reserve to reduce the roading rate (\$1.7 million).

**Issues**

- 33 The Annual Plan is based on a number of assumptions. In addition, there are a number of issues described below that may require separate reports to be brought back to Council. These reports

will explore the issues more fully and potentially include additional unbudgeted expenditure for 2020/2021 or beyond, if approved.

### **Te Anau Airport Manapouri rate**

- 34 As part of the response to Covid-19, the government's shut down of the borders to New Zealand for overseas visitors has seen the tourism market and those associated with provision of goods and services to the tourism market particularly affected.
- 35 The loss of tourism revenue in the Fiordland Basin as a result of this event and also the recent flooding had an significant impact on the area. In response consideration was given to the possibility of reducing the Te Anau Airport Manapouri rate for 2020/2021, with the potential of also extending this reduction as part of discussions around Councils 2021-2031 Long Term Plan.
- 36 This matter was discussed at the Council meeting on 22 April and the Fiordland Community Board meeting on 19 May. It was resolved by the Fiordland Community Board to reduce the Te-Anau Airport Manapouri rate from \$128.00 incl GST per rating unit to \$67.69 incl GST for the 2020/2021 year, by deferring 1 year of the loan repayments. This is inconsistent with Council's current Revenue and Financing Policy, however a resolution in accordance with section 80 of the Local Government Act 2002 has been included in this report. Further details of this matter can be found in the reports to the noted meetings.

### **Rates Affordability**

- 37 The Covid-19 pandemic and subsequent lockdown has led to a high level of uncertainty and risk particularly in regard to its potential economic, social and cultural impacts. This is on top of environmental legislation changes such as land and water plans, RMA reforms, increased building control costs and new three waters regulation. The issue of affordability of rates within communities means that it is important to try and minimise any proposed rates increase given the current circumstances, while ensuring that Council continues to provide an appropriate level of service to its communities and manage the increased risks that it faces as an organisation such as reductions in other revenue streams and increased costs in providing support during the response and subsequent recovery phases.
- 38 The Annual Plan 2020/2021 includes budgets based on best available information at early March 2020. Included in this is planned 2019/2020 capital projects that have been forecast to be completed or undertaken in 2020/2021. This information was compiled prior to the declaration of the alert level 4 nationwide lockdown. The lockdown will impact on the final operational and/or capital work budgets.
- 39 Time constraints will not enable Council to evaluate and quantify these changes for this Annual Plan and may result in a higher level of capital works being carried forward to 2020/2021 outside the 2020/2021 Annual Plan. Overall, however this is not expected to have a significant effect on rates that would have been required as part of the 2020/2021 Annual Plan as generally capital projects are funded from long term loans, the repayment of which occurs in the year following drawdown.

### **Cashflow forecasts and funding**

- 40 Council is forecast to be in overdraft of \$3.5 million by 30 June 2020 increasing to \$3.9 million by 30 June 2021. Interest on the overdraft has been allowed for in the budgets at 3.65% consistent with the LTP 2018-2028 assumptions, however this may vary depending on the cashflows of Council throughout the year and the actual interest rates incurred.

- 41 Council is also forecast to be drawing down external debt in 2020/2021 of approximately \$20 million. Interest on the term debt has been allowed for in the budgets at 3.65% and drawn down in full on 1 January 2021 consistent with the LTP 2018-2028 assumptions. This may also vary depending on the actual cashflows of Council throughout the year and the actual interest rate incurred, particularly on external debt.
- 42 Council has a district operations reserve which is made up of any unused operational funds offset by operational deficits and costs associated with specific projects. This reserve is forecast to be approximately \$1 million overdrawn at 30 June 2020 and planned to increase further into deficit in 2020/2021. At this stage repayment has not been incorporated. It will, however, need to be considered as part of Council's Long Term Plan when the actual results of operations and planned projects for 2019/2020 will be known.

#### **Utilising reserves to offset rate increases**

- 43 The proposed rate increase for 2020/2021 has been reduced by using \$1.7 million of roading reserves as well as an additional \$0.4 million of the forestry reserve. This is a one-off approach to assist in addressing the potential impact of rates increases on our ratepayers given the effect that the pandemic will have on the economy. This approach may result in a higher rates increase in 2021/2022 and beyond.

#### **Building control**

- 44 The building control activity exists to manage the risks from development, construction, weather tight home issues and earthquakes. Council has to balance the need for additional resources to ensure that it can meet the required service levels against the flow-on impact that this will have on the level of user fees charged for services. A number of assumptions have been made around the building control activity in developing the Annual Plan 2020/2021.
- 45 ***Increase in fees*** - the building control department is funded 80% from fees and charges and 20% from rates. Fees and charges are the main funding source for this activity reflecting the direct benefit to those who use the service. Fees and charges are proposed to be increased in 2020/2021 by 7.5% in order to cover the proposed increased costs for this activity. This increase is most significant in relation to consents for new dwellings. A 7.5% increase equates to \$245 for a new dwelling less than 300 square metres, or \$295 for a new dwelling larger than 300 square metres. Council's fees in this area are generally lower than neighbouring councils. There is a risk that if the fees and charges are not increased, the increased costs budgeted for will need to be covered from rates and/or reserves.
- 46 ***Additional costs*** - Council was audited by International Accreditation New Zealand (IANZ) in February 2019 and was advised that IANZ was not satisfied that Council's Code Compliance Certificate processing times and that processes were to the level that they needed to be. Council has taken a number of steps to improve its performance in this area and ensure we meet the required standards. It is important that Council be able to maintain the appropriate standards moving forward to ensure that it can retain accreditation as a Building Consent Authority (BCA). As a result staff have made an allowance for additional resourcing in the Annual Plan 2020/2021. There has been an increase in costs of \$0.9 million between the year three of the LTP and the Annual Plan 2020/2021 which includes staffing and contractor costs.
- 47 ***New fees and charges*** – the Ministry of Business, Innovation and Employment undertook an audit of Council's Territorial Authority (TA) functions in 2019 and made some recommendations around the work required to be undertaken and the associated fees that could be charged. Staff

are proposing to include the following five new fees and charges (including GST) associated with these TA functions in the Annual Plan 2020/2021:

Swimming pool inspection	\$165.00
Annual renewal of Building Warrant of Fitness	\$111.00
Inspection of Building Warrant of Fitness	\$350.00
Amendment fee	\$400.00
Discretionary exemption fee	\$342.00

- 48 It is anticipated that these fees will generate approximately \$150,000-\$200,000 of revenue per annum which can cover the cost of the additional resource required to undertake this work. A separate report will be brought to Council in due course, which will explore this matter further.

## Factors to Consider

### Legal and Statutory Requirements

- 49 The Annual Plan is a statutory requirement under the Local Government Act 2002 (section 95).
- 50 All councils are required by legislation to prepare and adopt an Annual Plan before the commencement of the financial year to which it relates (1 July 2020 in this instance).

### Community Views

- 51 The Community Boards were involved in the direction setting for the Annual Plan 2020/2021 and provided input into any new projects that were urgently required for their areas and the fees and charges for the local assets. This feedback was presented to Council for consideration and included in the Annual Plan 2020/2021 where appropriate.
- 52 As mentioned above, the annual plan information document was made available on facebook for comments. Council received three comments from one member of the public.
- 53 There was also opportunity to provide feedback to Council through public forum at any Council or Committee of Council meeting by live streaming during Covid-19 lockdown, or in person at a Council meeting once the lockdown was lifted. There were no requests to speak at public forum in relation to the Annual Plan 2020/2021.
- 54 The issue of affordability of rates within communities should always be considered. This particular Annual Plan also has the Covid-19 economic impacts which means that it could be even more difficult for our communities to meet their rates.

### Costs and Funding

- 55 There are various costs incurred in compiling the Annual Plan including staff costs and budgets. These are included in Council's annual budgets and funded accordingly.
- 56 The specific financial implications of the changes made to the final Annual Plan are outlined in the financial considerations section below.

### Policy Implications

- 57 The changes set out in the Annual Plan are consistent with Council's current Financial Strategy, Infrastructure Strategy and policies, except a variation to the Revenue and Financing Policy.
- 58 The resolution on 22<sup>nd</sup> April in relation to the Te Anau Airport Manapouri rate is inconsistent with the current Revenue and Financing policy.

- 59 Council's Revenue and Financing Policy outlines in section 2.3 that operating expenditure should be met from funding sources such as rates, reserves, user fees and charges. Capital expenditure can also be met from loans. Although Council's policy indicates these preferred funding sources, where Council makes a significantly inconsistent decision it can as a result of section 80 of the Local Government Act 2002, clearly identify as part of the decision the inconsistency, the reasons why and the intention or not to amend the policy to accommodate the decision.
- 60 Accordingly, a resolution to this effect is included with this report that specifically identifies the inconsistent decision.
- 61 No policies have been amended as part of the Annual Plan 2020/2021 development process.

### **Financial considerations**

- 62 The financial implications of the proposed Annual Plan 2020/2021 are noted below:

63 Rating Impact/Rates Increase

- the rate increase for 2020/2021 will be 2.31%, compared to 3.27% proposed in the LTP 2018-2028.
- the proposed rate increase for 2020/2021 has been reduced by using \$1.7 million of roading reserves as well as an additional \$0.4 million of the forestry reserve. This is a one-off approach to assist in addressing the potential impact of rates increases on our ratepayers given the effect that the pandemic will have on the economy. This approach may result in a higher rates increase in 2021/2022 and beyond.
- the Funding Impact Statement (Rates Section) has been updated to show the current District and local area rates. Rates will be set as either a rate in the dollar on land value or capital value or a Uniform Targeted Rate (UTR).

64 30% Maximum Uniform Targeted Rate (UTR)

- Uniform Targeted Rate - The maximum amount Council can collect under the UTR is 30% of total rates. The UTR for the 2020/2021 financial year will be 26.62%, compared to 27.09% for 2019/2020.

65 Impact on Financial Reports

- the consolidated impacts of the changes are shown in the draft forecast statement of comprehensive income and statement of financial position included in Attachment A of this report. Please note these may be subject to change as staff undertake the final review and finalisation of the Annual Plan document.
- in comparing the draft Annual Plan 2020/2021 forecast deficit to year three of the LTP 2018-2028, the deficit has increased \$1.7 million, from \$3.1 million to \$4.8 million.
  - increased revenue (\$6.5 million) is forecast from NZTA \$1.8 million and grants and subsidies (\$4.7 million). The grants expected to be received are for the Te Anau Wastewater project \$2 million, Milford Opportunities Project \$1.8 million, SIESA \$0.5 million and Stewart Island Jetties \$0.4 million.
  - this revenue is offset by increased costs, being employee associated costs (\$2.3 million) and other Council expenditure (\$5.8 million). Increased employee related costs are as a result of the need to continue to meet ongoing service and legislative requirements and as a result of some functions and associated positions being transferred from Venture Southland. Other Council expenditure includes costs relating to the Milford

Opportunities Project, SIESA wind energy project and building regulation area (\$2.8 million), flood damage reinstatement works (\$1 million), office lease (\$0.3 million), and Council's contribution to Pyramid Bridge (\$0.3 million).

- the prospective statement of financial position in the draft Annual Plan 2020/2021 incorporates 30 June 2019 actual balances (as opening balances) as well as changes resulting from revised forecasts for 2019/2020.
  - the main variance from year three of the LTP 2018-2028, is the increase in property, plant and equipment and external debt which is due to the increase in planned capital works including the Te Anau Wastewater project.

66 Compliance with Financial Strategy

- the draft Annual Plan is in compliance with the key financial indicators outlined in the financial strategy, being specifically:
- rates increases to be no more than Local Government Cost Index (LGCI) + 2.0%. For 2020/2021 in the Long Term Plan 2018-2028, the LGCI was budgeted at 2.2%, resulting in a limit of 4.2%. The revised LGCI forecast for June 2021 based on BERL forecasts at September 2019 remains at 2.2%. The draft rates increase proposed is 2.31%
- total debt not to exceed 100% of total annual revenue. Council anticipates it will require \$20 million of long term external debt in the 2020/2021 year (to be repaid over 30 years). Additionally, Council is forecast to be in overdraft at 30 June 2021 of \$2.7 million.

## Analysis

### Options Considered

- 67 **Option 1:** recommend the draft Annual Plan 2020/2021 to Council for adoption, with any minor amendments as agreed at this meeting.

**Option 2:** do not recommend the Annual Plan 2020/2021 to Council for adoption.

### Analysis of Options

- 68 **Option 1 – Recommend the draft Annual Plan 2020/2021 to Council for adoption, with any minor amendments as agreed at this meeting.**

<i>Advantages</i>	<i>Disadvantages</i>
<ul style="list-style-type: none"> <li>• the Annual Plan will comply with statutory requirements and timeframes</li> <li>• is consistent with the overall direction set through the LTP 2018-2028</li> <li>• adoption of the Annual Plan will enable rates to be set for the 2020/2021 financial year.</li> <li>• the committee has a delegated authority to recommend to Council the adoption of the Annual plan.</li> </ul>	<ul style="list-style-type: none"> <li>• no further changes can be made</li> </ul>

69 **Option 2 – Do not recommend the Annual Plan 2020/2021 to Council for adoption.**

<i>Advantages</i>	<i>Disadvantages</i>
<ul style="list-style-type: none"><li>• if a significant omission has been made in the development of the Annual Plan, it can be rectified.</li></ul>	<ul style="list-style-type: none"><li>• the Annual Plan will not comply with the statutory requirements to adopt before 1 July 2020.</li><li>• rates will not be able to set for the 2020/2021 financial year until the Annual Plan is adopted.</li><li>• there would be a high level of uncertainty for ratepayers.</li></ul>

**Assessment of Significance**

- 70 The draft Annual Plan 2020/2021 does not contain significant variance from year three of the LTP 2018-2028. Therefore, it did not meet the significant threshold in the Significance and Engagement Policy and the formal consultation with the public was not undertaken.

**Recommended Option**

- 71 Option 1 – Recommend the draft Annual Plan 2020/2021 to Council for adoption, with amendments as agreed at this meeting.

**Next Steps**

- 72 Following Council adoption, the Annual Plan 2020/2021 will be made available on the Council's website [www.southlanddc.govt.nz](http://www.southlanddc.govt.nz). Hard copies will be available upon request.

**Attachments**

- A Annual Plan 2020 2021 (separately enclosed)





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## Annual Report 2019/2020 - Key dates

**Record No:** R/20/5/11775

**Author:** Jason Domigan, Corporate Performance Lead

**Approved by:** Rex Capil, Group Manager Community and Futures

☐ Decision

☐ Recommendation

☒ Information

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### Purpose

- 1 The purpose of the report is to provide the committee with the key dates for the Annual Report 2019/2020.

### Executive Summary

- 2 The Annual Report is a key reporting document for Council to the community, and reports on Council's performance against the 2019/2020 Annual Plan.
- 3 The purpose of this report is to provide the committee with the key dates from the Annual Report 2019/2020 timetable.
- 4 The timetable has been prepared to ensure adoption of the Annual Report on 21 October 2020.
- 5 The Annual Report is required to be audited in accordance with section 99 of the Local Government Act 2002. Audit New Zealand (Audit NZ) have been engaged to undertake Council's audit for the year ending 30 June 2020.

## Recommendation

**That the Finance and Assurance Committee:**

- a) **Receives the report titled “Annual Report 2019/2020 - Key dates” dated 16 June 2020.**
- b) **Notes the Annual Report 2019/2020 - key dates as per attachment A, being:**

Key Tasks	Department leading	Due Date
<b>JUNE</b>		
<b>Approval of timetable by Finance and Assurance committee</b>	<b>Project team</b>	<b>Mon 22 June</b>
<b>AUG</b>		
ELT Subcommittee meeting to review year end business unit reports. Budget managers may attend this meeting to discuss their business unit's financial results.	Project team	Mon 17 August
ELT subcommittee meeting for feedback on draft annual report.	Project team	Mon 31 August
<b>SEPT</b>		
Reports to Finance and Assurance due	Project team	Wed 2 September
<b>Finance and Assurance Committee meeting to review draft unaudited Annual Report (word version) and approve release of the draft to Audit NZ (Table revised version)</b>	Project team	<b>Fri 11 September</b>
Audit NZ onsite for audit (3 weeks onsite)	Finance	Mon 14 September
<b>OCT</b>		
Audit NZ complete audit	Finance	Fri 9 October
Verbal clearance provided to Council from Audit NZ	Audit NZ	Mon 12 October
Report to Finance and Assurance due	Project team	Thu 8 October
Report to Council due	Project team	Tue 13 October
<b>Finance and Assurance committee - recommend the final Annual Report for adoption by Council</b>	<b>Project team</b>	<b>Fri 16 October</b>
<b>Adoption of full Annual Report summary document and Audit opinion(s)</b>	<b>Project team</b>	<b>Wed 21 October</b>
Annual Report and summary document online versions on website	Communications	Fri 23 October
Public Notice of full and summary document availability.	Communications	Sat 24 October

## Background

- 6 Council is required to develop and adopt an Annual Report within four months of the end of a financial year. The Annual Report is a means for Council to account and report to the community on its performance of the preceding financial year. It reports on outcomes, performance measures (both financial and non-financial) and provides information on the results achieved against planned results, as published in the Annual Plan 2019/2020.
- 7 The purpose of an Annual Report is:
  - (a) to compare the actual activities and the actual performance of the local authority in the year with the intended activities and the intended level of performance as set out in respect of the year in the Long Term Plan and the Annual Plan; and
  - (b) to promote the local authority's accountability to the community for the decisions made throughout the year by the local authority.
- 8 An Annual Report and a summary document are produced, and both these documents will be made available on Council's website. The summary document will be distributed to all Council

offices and copies of both the summary and the full document made available on request. The report availability will also be advertised in the Ensign and Southland Express.

- 9 The committee will be presented with the unaudited Annual Report in draft form at the 11 September 2020 meeting, for review and approval to release to Audit NZ.
- 10 The Annual Report is audited by Audit NZ which provides the reader with a level of assurance of the completeness and accuracy of the information reported. Audit NZ staff are expected to be on site from 14 September to 2 October 2020.
- 11 On 16 October 2020 the Finance and Audit Committee will receive the final draft of the Annual Report for recommendation for adoption by Council on 21 October 2019. Mr Dereck Ollsson Audit NZ Audit Director, will be present at the 16 October meeting.
- 12 Please note that the adoption date is later than usual as agreed with Audit NZ. This allows for the summary document to be approved at the same time as the full document, so they both can be made available to the public soon after adoption.

## **Issues**

### **Timeframes**

- 13 In order to deliver on the proposed timetable, full co-operation from the wider organisation is needed. It is therefore important that information is provided in a timely manner. There is a risk of deadlines and timeframes being impacted if information is not provided in a timely manner.
- 14 The relevant key dates for staff will be communicated to reduce this risk, however management will also need to be proactive in prioritising tasks associated with the Annual Report.

### **Covid-19**

- 15 This year's timetable has been impacted by the effects of the Covid-19 pandemic. Audit NZ staff were unable to conduct the interim audit onsite in March so the process occurred remotely.
- 16 It is anticipated that Audit NZ staff will be onsite to conduct the final audit process in September/October. All precautions and Ministry of Health guidelines will be followed and SDC staff will be advised in advance about their presence onsite.

## **Factors to Consider**

### **Legal and Statutory Requirements**

- 17 Section 98 of the Local Government Act 2002 states that:
  - (1) A local authority must prepare and adopt in respect of each financial year an Annual Report containing in respect of that year the information required by Part 3 of Schedule 10.
  - (2) The purposes of an Annual Report are—
    - (a) to compare the actual activities and the actual performance of the local authority in the year with the intended activities and the intended level of performance as set out in respect of the year in the Long Term Plan and the Annual Plan; and
    - (b) to promote the local authority's accountability to the community for the decisions made throughout the year by the local authority.
  - (3) Each Annual Report must be completed and adopted, by resolution, within four months after the end of the financial year to which it relates.

- (4) A local authority must, within one month after the adoption of its Annual Report, make publicly available—
- (a) its Annual Report; and
  - (b) a summary of the information contained in its Annual Report.
- (5) The summary must represent, fairly and consistently, the information regarding the major matters dealt with in the Annual Report.
- (6) A local authority must, within one month after the adoption of its Annual Report, send copies of that report and of the summary prepared under subsection (4)(b) publicly available.
- 18 Information that must be included can be found in Schedule 10 Part 3 of the act, and includes:
- groups of activities
  - capital expenditure for groups of activities
  - statement of service provision
  - funding impact statement for groups of activities
  - internal borrowing
  - Council-controlled organisations
  - financial statements
  - funding impact statement
  - rating base information
  - reserve funds
  - insurance of assets
  - remuneration issues
  - employee staffing levels and remuneration
  - severance payments
  - statement of compliance
  - the activities that the local authority has undertaken in the year to establish and maintain processes to provide opportunities for Māori to contribute to the decision-making processes of the local authority.
- 19 The Annual Report 2019/2020 and summary document reports on Council's performance against the Annual Plan (which is based on the second year of the Council's Long Term Plan 2018-2028).
- 20 As each Annual Report must be completed and adopted, by resolution, within four months after the end of the financial year to which it relates, this makes 31 October 2020 the last day available to meet this timeframe.

### Community Views

- 21 As the Annual Report is a report on activities undertaken during the year, no consultation is required.

### **Costs and Funding**

- 22 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.
- 23 Audit NZ's proposal letter sets out the cost to conduct the audit and estimated disbursements. These are discussed in a separate report in this agenda.
- 24 Sufficient budget has been allowed for the audit fee and associated printing costs in the operating budgets for 2019/2020.

### **Policy Implications**

- 25 There are no policy implications identified.

### **Assessment of Significance**

- 26 Whilst the Annual Report is an important accountability document for Council, the purpose of this report is to set out the key dates for the proposed timetable, and is identified by staff as being of low significance in relation to Council's Significance and Engagement Policy.

### **Next Steps**

- 27 Staff will action the proposed timetable, and circulate it to the relevant staff.
- 28 The committee will review the draft unaudited report at the 11 September 2020 meeting and confirm release of the draft to Audit NZ.
- 29 The committee will receive the final draft of the Annual Report on 16 October for recommendation for adoption by Council on 21 October 2020.

### **Attachments**

- A 2019/2020 Annual Report key dates [↓](#)

Key Tasks	Department leading	Due Date
<b>JUNE</b>		
<b>Approval of timetable by Finance and Assurance committee</b>	<b>Project team</b>	<b>Mon 22 June</b>
<b>AUG</b>		
ELT Subcommittee meeting to review year end business unit reports. Budget managers may attend this meeting to discuss their business unit's financial results.	Project team	Mon 17 August
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Annual Report and summary document online versions on website	Communications	Fri 23 October
Public Notice of full and summary document availability.	Communications	Sat 24 October

## Accounting Policies for the year ended 30 June 2020

Record No: R/20/5/11691  
Author: Sheree Marrah, Financial Accountant  
Approved by: Anne Robson, Chief Financial Officer

☐ Decision ☒ Recommendation ☐ Information

### Purpose

- 1 To consider and recommend to Council the adoption of the accounting policies to be used to compile the Council's annual report for the year ended 30 June 2020.

### Executive Summary

- 2 The draft accounting policies (Attachment A) set the basis on which Council's annual report for the year ended 30 June 2020 will be prepared and the associated financial information compiled.
- 3 The accounting standards proposed for the 30 June 2020 annual report are based on those used for the 2019 annual report. The only change is in relation to jointly controlled operations and updating the standards available for early adoption, but which are not proposed to be early adopted. These amendments are noted in green text in Attachment A.

### Recommendation

**That the Finance and Assurance Committee:**

- a) **Receives the report titled "Accounting Policies for the year ended 30 June 2020" dated 16 June 2020.**
- 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 the accounting policies as outlined in Attachment A, including any amendments from this meeting, be adopted for use in preparation of the Council's Annual Report for the year ended 30 June 2020.**

### Background

- 4 Councils are required by legislation to adopt an annual report every year. The annual report informs the reader about how Council did against what Council said it was going to do in the 2019/2020 Annual Plan.

- 5 In arriving at the accounting policies proposed, Council staff have used the 2018/2019 Annual Report policies as the base, considered these against the 2019/2020 Annual Plan accounting policies and reviewed for any changes needed, including any new or amended financial reporting standards.

### Issues

- 6 The accounting standards proposed for the 30 June 2020 annual report are based on those used for the 2019 annual report. The only change is in relation to jointly controlled operations and updating the standards available for early adoption. These amendments are noted in green text in Attachment A.

### New Accounting Standards

- 7 Council must apply the following new accounting standards in preparing their 30 June 2020 financial statements.
- PBE IPSAS 34 Separate Financial Statements,
  - PBE IPSAS 35 Consolidated Financial Statements,
  - PBE IPSAS 36 Investments in Associates and Joint Ventures,
  - PBE IPSAS 37 Joint Arrangements, and
  - PBE IPSAS 38 Disclosure of Interest in Other Entities.
- 8 These standards relate to how Council accounts for Southland Regional Heritage Committee (SRHC), Emergency Management Southland (EMS), WasteNet, Milford Community Trust (MCT), Southland Museum and Art Gallery Trust (SMAG), Great South/Southland Regional Development Authority (SRDA) and Whakamana Te Waituna Charitable Trust in the Annual Report 2019/2020.
- 9 Council staff presented papers to the Finance and Audit committee meeting in December 2018 and June 2019 regarding the approach Council intended to take for accounting for these entities in the Annual Report for the year ended 30 June 2019 and beyond. A summary of Council's approach to accounting for these entities is included as Attachment B.
- 10 The implementation of these standards results in a change in the accounting policy for jointly controlled operations from proportionate consolidation to equity method. This will impact how we account for WasteNet for the year ended 30 June 2020.

### Early adoption of accounting standards

- 11 As part of considering the applicable accounting policies staff also need to consider any new standards that will apply in the future and consider if it is appropriate to adopt early.
- 12 The below standards and amendments have been issued by the External Reporting Board (XRB) and are effective for reporting periods beginning on or after 1 January 2020. For Council they will be effective for the financial year ending 30 June 2021 and beyond:
- PBE IPSAS 9 Financial Instruments
  - PBE FRS 48 Service Performance Reporting



- PBE IFRS 17 Insurance Contracts
- PBE IPSAS 40 PBE Combinations
- PBE IPSAS 41 Financial Instruments.

- 13 Council staff do not consider there is any benefit in adopting the standards early.
- 14 The future application of these standards to Councils financial accounts is noted under the heading “Standards issued and not yet effective that have not been early adopted” within the accounting policies (refer policy (ab) page 15 of Attachment A).

#### Venture Southland

- 15 Council staff expect that the Venture Southland (VS) wind up will be complete by 30 June 2020 and therefore there will be no requirement to account for VS balances at 30 June 2020 in the Annual Report.
- 16 The appropriate dissolution entries will be included in the financial results for the year ended 30 June 2020.

#### SIESA property, plant and equipment

- 17 Audit NZ have recommended in their management letter to 30 June 2019 that Council consolidate the fixed assets disclosures for SIESA with Council assets given that SIESA is a business unit of Council. Accordingly the property, plant and equipment accounting policy (refer page 7-9 of Attachment A) has been amended to show consolidated disclosures.

### **Factors to Consider**

#### **Legal and Statutory Requirements**

- 18 Section 98 of the Local Government Act 2002 requires the Council to prepare and adopt an Annual Report within four months of the end of the financial year.
- 19 Section 111 of the Local Government Act states that any information to be prepared must be in accordance with generally accounting practice where the information is of a form or nature for which generally accepted accounting practice has developed standards.

#### **Community Views**

#### **Costs and Funding**

- 20 There are no direct cost implications of Council adopting accounting policies.

#### **Policy Implications**

- 21 Council has by way of Section 6.1 of the Finance and Assurance Committee’s terms of reference delegated to the committee to consider and make recommendations to Council in regards to accounting treatments, changes in generally accepted accounting practice and new accounting and reporting requirements.

## Analysis

### Analysis of Options

**Option 1 – Recommends to Council the use of the accounting policies attached, including any amendments agreed at this meeting, for use in preparation of the Council's 2019/2020 Annual Report**

<i>Advantages</i>	<i>Disadvantages</i>
<ul style="list-style-type: none"> <li>The Annual Report can continue to be prepared in line with the timetable.</li> </ul>	<ul style="list-style-type: none"> <li>The Committee would not get any further information if it required it before Committee endorses the report for release to Audit NZ.</li> </ul>

**Option 2 – Do not recommend accounting policies as presented**

<i>Advantages</i>	<i>Disadvantages</i>
<ul style="list-style-type: none"> <li>Changes can be made to the accounting policies to incorporate the Committee's views.</li> </ul>	<ul style="list-style-type: none"> <li>The preparation of the Annual Report process may be held up depending on the time needed to provide the necessary information.</li> </ul>

## Assessment of Significance

- 22 In terms of Council's Significance and Engagement Policy, the accounting policies which form part of the Annual Report are not considered significant.

## Recommended Option

- 23 Option one - Recommends to Council the use of the accounting policies attached, including any amendments agreed at this meeting, for use in preparation of the Council's 2019/2020 Annual Report.

## Next Steps

- 24 If the committee approves the policies, they will be presented to Council for adoption in due course.
- 25 The accounting policies (incorporating any changes agreed at this meeting) will be reviewed by Audit New Zealand as part of their audit of the Annual Report.

## Attachments

- A Draft Accounting policies for the year ending 30 June 2020 [↗](#)
- B Accounting for related entities - Overall summary June 2020 [↗](#)

## Draft accounting policies for the Annual Report 2019/2020

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### Reporting entity

The Southland District Council (referred to as "SDC" or "Council") is a territorial local authority established under the Local Government Act 2002 (LGA) and is domiciled and operated in New Zealand. The relevant legislation governing the Council's operations includes the LGA and the Local Government (Rating) Act 2002. The primary objective of Council is to provide goods or services for the community or social benefit rather than making a financial profit. Accordingly, SDC has designated itself as a public benefit entity (PBE) for financial reporting purposes.

The Council financial statements represent the results of Council's nine significant activity groups (detailed on pages XX), including the Stewart Island Electrical Supply Authority (SIESA), as well as Council's share of its joint ventures and associates (including Venture Southland, WasteNet, Southland Regional Heritage committee, Emergency Management Southland, and Great South).

SIESA is a business unit of Council, which generates and reticulates electricity to most of Stewart Island residents and industry.

The group financial statements represent the results of the ultimate parent, Southland District Council, and its subsidiary, Milford Community Trust.

Council provides local infrastructure, local public services and performs regulatory functions for the community. Council does not operate to make a financial return.

The financial statements of SDC are for the year ended 30 June 2020. The financial statements were authorised for issue by Council on 21 October 2020.

### Basis of preparation

The financial statements have been prepared on the going concern basis, and the accounting policies have been applied consistently to all periods presented in these financial statements.

The financial statements have been prepared in accordance with the requirements of the Local Government Act 2002 and the Local Government (Financial Reporting and Prudence) Regulations 2014 (LGFRP): Part 6, Section 98 and Part 3 of Schedule 10, which includes the requirement to comply with New Zealand Generally Accepted Accounting Practice (NZ GAAP).

These financial statements have been prepared in accordance with Tier 1 PBE accounting standards and comply with PBE standards.

### Measurement base

The financial statements have been prepared on a historical cost basis, modified by the revaluation of heritage assets, certain infrastructural assets, and biological assets

### Functional and Presentation Currency

The financial statements are presented in New Zealand dollars (the functional currency of SDC) and all values are rounded to the nearest thousand dollars (\$000). As a result of rounding there may be slight discrepancies in subtotals.

**Associates**

SDC accounts for investments in associates in the consolidated financial statements using the equity method. An associate is an entity over which Council has significant influence and that is neither a subsidiary nor an interest in a joint venture. The investment in an associate is initially recognised at cost and the carrying amount is increased or decreased to recognise Council's share of the surplus or deficit of the associate after the date of acquisition. SDC's share of the surplus or deficit of the associate is recognised in SDC's statement of comprehensive revenue and expense. Distributions received from an associate reduce the carrying amount of the investment.

If SDC's share of deficits of an associate equals or exceeds its interest in the associate, SDC discontinues recognising its share of further deficits. After SDC's interest is reduced to zero, additional deficits are provided for, and a liability is recognised, only to the extent that SDC has incurred legal or constructive obligations or made payments on behalf of the associate.

If the associate subsequently reports surpluses, SDC will resume recognising its share of those surpluses only after its share of the surpluses equals the share of deficits not recognised.

SDC's share in the associate's surplus or deficits resulting from unrealised gains on transactions between the SDC and its associates is eliminated.

SDC's investments in associates are carried at cost in the "parent entity" financial statements and assessed annually for impairment in arriving at the carrying value.

**Joint Ventures**

A joint venture is a binding arrangement whereby two or more parties are committed to undertake an activity that is subject to joint control. Joint control is the agreed sharing of control over the activity.

For jointly controlled operations, Council and the group recognises in its financial statements the assets it controls, the liabilities and expenses it incurs, and the share of revenue that it earns from the joint venture.

For jointly controlled entities, Council recognises its interest in jointly controlled entities using ~~proportionate consolidation~~ the equity method.

Council has a 42 percent interest in Venture Southland. ~~Venture Southland has been wound up as at 30 June 2020.~~ The audited financial statements of Venture Southland as of 30 June 2019, have been accounted for in Council's financial statements using the proportionate method of consolidation.

**Specific accounting policies****a) Revenue**

Revenue is measured at fair value.

The specific accounting policies for significant revenue items are:

The following policies for rates have been applied:

- general rates, targeted rates (excluding water-by-meter) and uniform annual general charges are recognised at the start of the financial year to which the rates resolution relates. They are recognised at the amounts due. Council considers that the effect of payment of rates instalments is not sufficient to require discounting of rates receivables and subsequent recognition of interest revenue

- rates arising from late payment penalties are recognised as revenue when rates become due
  - revenue from water-by-meter rates is recognised on an accrual basis based on usage. Unbilled usage, as a result of unread meters at year end, is accrued on an average usage basis
  - rates remissions are recognised as a reduction in rates revenue when Council has received an application that satisfies its rates remission policy.
- Revenue from the rendering of services is recognised by reference to the stage of completion of the transaction at balance date, based on the actual service provided as a percentage of the total services to be provided.

Revenue from electricity charges is recognised on an accrual basis based on usage. Unbilled usage as a result of unread meters at year end is accrued on an average usage basis.

Interest is recognised using the effective interest method.

Subsidies from NZTA and grants from other government agencies are recognised as revenue upon entitlement, which is when conditions pertaining to eligible expenditure have been fulfilled.

Other grants and bequests are recognised when they become receivable unless there is an obligation in substance to return the funds if conditions of the grant are not met. If there is such an obligation, the grants are initially recorded as grants received in advance and recognised as revenue when conditions of the grant are satisfied.

Fees for disposing of waste at Council's landfill are recognised as waste disposed by users.

Fees and charges for building and resource consent services are recognised on a percentage completion basis with reference to the recoverable costs incurred at balance date.

For assets received for no or nominal consideration, the asset is recognised at its fair value when Council obtains control of the asset. The fair value of the asset is recognised as revenue, unless there is a use or return condition attached to the asset.

The fair value of vested or donated assets is usually determined by reference to the cost of constructing the asset. For assets received from property developments, the fair value is based on construction price information provided by the property developer.

For long-lived assets that must be used for a specific use (eg land used as a recreation reserve), Council immediately recognises the fair value of the asset as revenue. A liability is recognised only if Council expects that it will need to return or pass the asset to another party.

Donated and bequeathed financial assets are recognised as revenue unless there are substantive use or return conditions. A liability is recorded if there are substantive use or return conditions and the liability released to revenue as the conditions are met (eg as the funds are spent for a nominate purpose).

Development and financial contributions are recognised at the later of the point when Council is ready to provide the service for which the contribution was levied, or the event that will give rise to a requirement for a development or financial contribution under the legislation. Otherwise, development and financial contributions are recognised as liabilities until such time as Council provides, or is able to provide, the service.

Dividends are recognised when the right to receive payment has been established.

#### **Borrowing Costs**

Borrowing costs are recognised as an expense in the period in which they are incurred.

**b) Grant Expenditure**

Non-discretionary grants are those grants that are awarded if the grant application meets the specified criteria and are recognised as expenditure when an application that meets the specified criteria for the grant has been received.

Discretionary grants are those grants where Council has no obligation to award on receipt of the grant application and are recognised as expenditure when a successful applicant has been notified of SDC's decision.

**c) Foreign currency transactions**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

**d) Leases**

***Operating Leases***

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset.

Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term. Lease incentives are recognised in the surplus or deficit as a reduction of rental expense over the lease term.

**e) Equity**

Equity is the community's interest in SDC as measured by total assets less total liabilities. Equity is disaggregated and classified into a number of reserves to enable clearer identification of the specified uses that Council makes of its accumulated surpluses. The components of equity are:

- accumulated funds
- Council-created reserves (general reserve, separate account balances and rates appropriation balance)
- special reserves (managed by allocation committees)
- asset revaluation reserves
- fair value through other comprehensive revenue and expense reserve.

Reserves represent a particular use to which various parts of equity have been assigned. Reserves may be legally restricted or created by Council.

Council created reserves may be altered without reference to any third party or the courts. Transfers to and from these reserves are at the discretion of Council.

Special reserves are subject to specific conditions accepted as binding by Council, which may not be revised by Council without reference to the courts or third party.

Transfers from these reserves may be made only for specified purposes or when certain conditions are met.

**f) Cash and Cash Equivalents**

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less and bank overdrafts.

Bank overdrafts are shown within borrowings in current liabilities in the Forecast Statement of Financial Position.

**g) Trade and Other Receivables**



Trade and other receivables are recorded at their face value, less any provision for impairment.

**h) Inventories**

Inventories (such as spare parts and other items) held for distribution or consumption in the provision of services that are not supplied on a commercial basis are measured at the lower of cost or current replacement cost.

The write down from cost to current replacement cost is recognised in the Statement of Comprehensive Revenue and Expense.

**i) Financial Assets**

SDC classifies its financial assets into the following four categories: financial assets at fair value through surplus or deficit, held-to-maturity investments, loans and receivables, and financial assets at fair value through other comprehensive revenue and expense. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

Financial assets are initially measured at fair value plus transaction costs unless they are carried at fair value through surplus or deficit in which case the transaction costs are recognised in the surplus or deficit. Purchases and sales of investments are recognised on trade-date, the date on which Council commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cashflows from the financial assets have expired or have been transferred and Council has transferred substantially all the risks and rewards of ownership.

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. Council uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cashflows, are used to determine fair value for the remaining financial instruments.

The four categories of financial assets are:

***Financial assets at fair value through surplus or deficit***

Financial assets at fair value through surplus or deficit include financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of short term profit-taking.

Financial assets acquired principally for the purpose of selling in the short term or part of a portfolio classified as held for trading are classified as a current asset.

After initial recognition they are measured at their fair values. Gains or losses on re-measurement are recognised in the surplus or deficit.

***Loans and receivables***

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance date, which are included in non-current assets.

After initial recognition they are measured at amortised cost using the effective interest method. Gains and losses when the asset is impaired or derecognised are recognised in the surplus or deficit. Loans and receivables are classified as "trade and other receivables" in the statement of financial position.

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***Held to maturity investments***

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that SDC has the positive intention and ability to hold to maturity. They are included in current assets, except for maturities greater than 12 months after the balance date, which are included in non-current assets.

After initial recognition they are measured at amortised cost using the effective interest method less impairment. Gains and losses when the asset is impaired or derecognised are recognised in the surplus or deficit.

***Financial assets at fair value through other comprehensive revenue and expense***

Financial assets at fair value through other comprehensive revenue and expense are those that are designated into the category at initial recognition or are not classified in any of the other categories above. They are included in non-current assets unless management intends to dispose of, or realise, the investment within 12 months of balance date.

This category encompasses:

- investments that Council intends to hold long term but which may be realised before maturity; and
- shareholdings that Council holds for strategic purposes.

These investments are measured at their fair value, with gains and losses recognised in other comprehensive revenue and expense, except for impairment losses, which are recognised in the surplus or deficit.

On derecognition the cumulative gain or loss previously recognised in other comprehensive revenue and expense is reclassified from equity to the surplus or deficit.

Council's investments in this category include: Civic Assurance (formerly the New Zealand Local Government Insurance Corporation Limited) and Milford Sound Development Authority.

**j) Impairment of Financial Assets**

At each balance sheet date SDC assesses whether there is any objective evidence that a financial asset or group of financial assets is impaired. Any impairment losses are recognised through the surplus or deficit.

**k) Goods and Services Tax (GST)**

The financial statements have been prepared exclusive of GST with the exception of receivables and payables, which are stated inclusive of GST. When GST is not recoverable as an input tax then it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the statement of financial position.

The net GST paid to, or received from the IRD, including the GST relating to investing and financing activities, is classified as an operating cashflow in the statement of cashflows.

Commitments and contingencies are disclosed exclusive of GST.



**I) Property, Plant and Equipment**

Property, plant and equipment consist of:

- *Infrastructure Assets*

Infrastructure assets are the fixed utility systems owned by SDC. Each asset class includes all items that are required for the network to function. For example, sewer reticulation includes reticulation piping and sewer pump stations.

- *Operational Assets*

These include land, buildings, improvements, library books, plant and equipment and motor vehicles.

- *Restricted Assets*

Restricted assets are parks and reserves owned by the Council, which cannot be disposed of because of legal or other restrictions and provide a benefit or service to the community.

Property, plant and equipment is shown at cost or valuation, less accumulated depreciation and impairment losses.

- *Additions*

The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to SDC and the cost of the item can be measured reliably.

In most instances, an item of property, plant and equipment is recognised at its cost. Where an asset is acquired through a non-exchange transaction it is recognised at fair value as at the date of acquisition.

- *Disposals*

Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount of the asset. Gains and losses on disposals are reported net in the surplus or deficit. When revalued assets are sold, the amounts included in asset revaluation reserves in respect of those assets are transferred to retained earnings.

- *Subsequent costs*

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to SDC and the cost of the item can be measured reliably.

The costs of day-to-day servicing of property, plant and equipment are recognised in the surplus or deficit as they are incurred.

- *Depreciation*

Depreciation is provided on a straight-line (SL) or on a diminishing value (DV) basis, on all property, plant and equipment except land and heritage assets, at rates which will write off the cost (or valuation) of the assets to their estimated residual values over their useful lives. The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:

Estimated Economic Life		Depreciation	
Asset Category	(years)	Percent	Method
Operational Assets			
Improvements	10-12	8.33% - 10.00%	SL
Buildings	10-100	1.00% - 10.00%	SL or DV
Light Vehicles	5-11	9.00% - 20.00%	SL
Heavy Vehicles	4-8	12.00% - 21.60%	DV
Other Plant	3-15	6.67% - 33.33%	SL
Furniture and Fittings	7-13	8.00% - 30.00%	SL
Office Equipment	7-10	10.00% - 14.00%	SL
Computer Equipment	2-8	18.00% - 40.00%	SL
SCADA Equipment	5-7	14.00% - 20.00%	SL
Other Equipment	6-8	13.50% - 18.00%	SL
Library Books	10	10.00%	SL

Estimated Economic Life		Depreciation	
Asset Category	(years)	Percent	Method
Infrastructural Assets			
Electrical Generation Plant	1-100	1.00% - 100.00%	SL or DV
Sealed Roads	40-99	1.00% - 2.50%	SL
Unsealed Roads	4-8	12.50% - 25.00%	SL
Bridges	45-120	0.83% - 2.50%	SL
Footpaths	12-60	1.67% - 8.33%	SL
Streetlighting	20-40	2.50% - 5.00%	SL
Sewerage Schemes	14-50	2.06% - 7.02%	SL
Stormwater Schemes	5-20	5.00% - 20.00%	SL
Water Supply Schemes	5-100	1.00% - 20.00%	SL
Marine Assets	5-50	2.00% - 20.00%	SL
Transfer Stations	10	10.00%	SL
Landfill Sites	10-40	2.50% - 10.00%	SL

SIESA assets have the following useful lives and associated depreciation rates of major classes of assets for accounting purposes. The method of calculating depreciation is either straight-line (SL) or on a diminishing value basis (DV).

Estimated Economic Life		Depreciation	
Asset Category	(years)	Percent	Method

Estimated Economic Life		Depreciation	
Plant	1-7	4.00%–100.00%	SL or DV
Vehicles	4-8	12.00%–21.60%	DV
Buildings	10-100	1.00%–10.00%	SL or DV

The residual value and useful life of an asset is reviewed and adjusted, if applicable, at each financial year-end.

#### *Revaluations*

Roads, water reticulation, sewerage reticulation and stormwater systems are revalued on an annual basis. Council-owned heritage assets include artworks, war memorials, viaducts and railway memorabilia. Artworks are revalued every three - five years.

All other asset classes are carried at depreciated historical cost. The carrying values of revalued items are reviewed each balance date to ensure that those values are not materially different to fair value. The valuation basis for the different asset categories are described in more detail below.

#### *Land and Buildings*

The deemed cost of land and buildings were established by registered valuers from Quotable Value in accordance with the requirements of the Institute of Chartered Accountants of New Zealand Standards, as at 30 June 1993. Purchases made since 30 June 1993 are recorded at cost.

Endowment lands are vested in Council for specific purposes for the benefit of various communities. These vestings have been made under various pieces of legislation which restrict both the use of any revenue and any possible dispositions.

#### *Infrastructural Assets*

Appropriately qualified personnel from WSP Opus have completed a revaluation of District roading, footpaths and bridge asset networks as at 30 June 2020. This revaluation established a depreciated replacement cost to component level for those infrastructural assets as at 30 June 2020.

Land values associated with Council's roading network are the values from the 2005/2006 road network valuation, which is deemed cost and have not been revalued.

Appropriately qualified personnel from Waugh Infrastructure Management Limited have completed a revaluation as at 30 June 2020 of the water supply, sewerage scheme and stormwater assets.

This revaluation established a depreciated replacement cost to component level for those infrastructural assets as at 30 June 2020. Revaluations of roading, water, sewerage and stormwater assets are carried out annually.

All other infrastructural assets (electrical generation plant, street lighting and marine assets) are valued at their deemed cost, based on a revaluation of assets undertaken by appropriately qualified personnel from Royds Garden Limited in 1993.

Plant and Vehicles (including Electrical Generation Plant) items are shown at historical cost less provision for depreciation.

*Library Books*

Books have been valued by SDC staff on a depreciated replacement cost basis, using New Zealand Library Association guidelines, as at 30 June 1993 representing deemed cost. Additions to library book stocks since 30 June 1993 are recorded at cost.

*Heritage assets*

The only assets to be included under this category are art works owned by the Council, which have been valued by an independent valuer, Mr R Thomson of International Art Centre, Auckland, as at 30 June 2018 and recorded at fair value in accordance with NZ IAS 16.

Other assets, which would normally be classified under heritage assets, for example war memorials, have been included under "other assets". Due to the nature of the item, art works are revalued on a three to five-yearly cycle and not depreciated.

*Other Assets*

Other assets are shown at historic cost or depreciated replacement cost, less a provision for depreciation. Additions and deletions to other assets since 30 June 1993 are recorded at cost.

*Accounting for Revaluations*

SDC accounts for revaluations of property, plant and equipment on a class of asset basis.

The results of revaluing are credited or debited to other comprehensive revenue and expense and are accumulated to an asset revaluation reserve in equity for that class of asset.

Where this results in a debit balance in the asset revaluation reserve, this balance is not recognised in other comprehensive revenue and expense but is recognised in the surplus or deficit.

Any subsequent increase on revaluation that off-sets a previous decrease in value recognised in the surplus or deficit will be recognised first in the surplus or deficit up to the amount previously expensed, and then recognised in other comprehensive revenue and expense.

**m) Work in Progress**

Assets under construction are not depreciated. Work in progress is recognised at cost less impairment. The total cost of a project is transferred to the relevant asset class on its completion and then depreciated.

**n) Intangible Assets**

- Software acquisition and development

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Costs associated with maintaining computer software are recognised as an expense when incurred. Costs directly associated with the development of software for internal use by Council are recognised as an intangible asset. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Staff training costs are recognised in the surplus or deficit when incurred.

Costs associated with maintaining computer software are recognised as an expense when incurred.

- **Amortisation**

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each period is recognised in the surplus or deficit.

The useful lives and associated amortisation rates of major classes of intangible assets have been estimated as follows:

Estimated Economic Life		Depreciation	
Asset Category	(years)	Percent	Method
Computer software	2-10	10.00% - 50.00%	SL

- **Emissions Trading Scheme**

Council has approximately 1,384 hectares of pre-1990 forest land. This land is subject to the provisions of the New Zealand Emissions Trading Scheme ('ETS'). The implication of this for the financial accounts is twofold:

Should the land be deforested (ie: the land is changed from forestry to some other purpose), a deforestation penalty will arise.

Given the deforestation restriction, compensation units are being provided from the government.

The deforestation contingency is not recognised as a liability on the statement of financial position as there is no current intention of changing the land use subject to the ETS.

However, the estimated liability that would arise should deforestation occur has been estimated in the notes to the accounts.

Compensation units received are recognised based on the market value at balance date (30 June). They are recognised as income in the financial statements. They are not amortised, but are tested for impairment annually.

Emissions Trading Units are revalued annually at 30 June.

The difference between initial value or the previous revaluation, and disposal or revaluation value of the units, is recognised in other comprehensive revenue and expense.

**o) Forestry Assets**

Forestry assets are revalued independently annually at fair value less estimated point of sale costs. Appropriately qualified personnel from Woodlands Pacific Consulting Limited completed a revaluation as at 30 June 2020. Fair value is determined based on the present value of expected net cashflows discounted at a current market determined pre-tax rate.

Gains or losses arising on initial recognition of biological assets at fair value less estimated point of sale costs and from a change in fair value less estimated point of sale costs are recognised in the surplus or deficit.

The costs to maintain the forestry assets are recognised in the surplus or deficit when incurred.

**p) Impairment of property, plant and equipment and intangible assets**

Intangible assets subsequently measured at cost that have an indefinite useful life, or are not yet available for use, are not subject to amortization and are tested annually for impairment.

Property, plant and equipment and intangible assets subsequently measured at cost that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

If an asset's carrying amount exceeds its recoverable amount, the asset is regarded as impaired and the carrying amount is written down to the recoverable amount.

The total impairment loss is recognised in the surplus or deficit.

The reversal of an impairment loss is recognised in the surplus or deficit.

Value in use for non-cash generating assets

Non-cash generating assets are those assets that are not held with the primary objective of generating a commercial return.

For non-cash generating assets, value in use is determined using an approach based on either a depreciated replacement cost approach, or a service unit approach. The most appropriate approach used to measure the value in use depends on the nature and impairment and availability of information.

Value in use for cash generating assets

Cash generating assets are those assets that are held with the primary objective of generating a commercial return.

The value in use for cash generating assets and cash generating units is the present value of expected future cashflows.

**q) Creditors and other payables**

Short-term creditors and other payables are recorded at their face value

**r) Employee Benefits**

*Short term benefits*

Employee benefits that SDC expects to be settled within 12 months of balance date are measured at nominal values based on accrued entitlements at current rates of pay.

These include salaries and wages accrued up to balance date, annual leave earned to, but not yet taken at balance date, retiring and long service leave entitlements expected to be settled within 12 months.

*Long term benefits*

- Long service leave and retirement leave

Entitlements that are payable beyond 12 months, such as long service leave and retiring leave, have been calculated by in-house staff. The calculations are based on:

- likely future entitlements accruing to staff, based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement and contractual entitlements information; and



- the present value of the estimated future cashflows.

- Superannuation schemes

Defined contribution schemes - Obligations for contributions to defined contribution superannuation schemes are recognised as an expense in the surplus or deficit when incurred.

#### *Presentation of employee entitlements*

Annual leave and vested long service leave are classified as a current liability. Non-vested long service leave and retirement gratuities expected to be settled within 12 months of balance date are classified as a current liability. All other employee entitlements are classified as a non-current liability.

#### **s) Trade and other payables**

Trade and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment

#### **t) Provisions**

SDC recognises a provision for future expenditure of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event, it is probable that expenditures will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

The increase in the provision due to the passage of time is recognised as an interest expense and is included in 'finance costs'.

#### *Financial Guarantee Contracts*

A financial guarantee contract is a contract that requires SDC to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due.

Financial guarantee contracts are initially recognised at fair value. If a financial guarantee contract was issued in a stand-alone arm's length transaction to an unrelated party, its fair value at inception is equal to the consideration received.

When no consideration is received a provision is recognised based on the probability Council will be required to reimburse a holder for a loss incurred discounted to present value. The portion of the guarantee that remains unrecognised, prior to discounting to fair value, is disclosed as a contingent liability. If the fair value of a guarantee cannot be reliably determined, a liability is only recognised when it is probable there will be an outflow under the guarantee.

Financial guarantees are subsequently measured at the initial recognition amount less any amortisation, however, if SDC assesses that it is probable that expenditure will be required to settle a guarantee, then the provision for the guarantee is measured at the present value of the future expenditure.

#### *Landfill Post-Closure Costs*

SDC, as an operator, has a legal obligation under its resource consent to provide ongoing maintenance and monitoring services at their landfill sites after closure. A provision for post-closure costs is recognised as a liability when the obligation for post-closure arises.

The provision is measured based on the present value of future cashflows expected to be incurred, taking into account future events including new legal requirements and known improvements in technology. The provision includes all costs associated with landfill post closure.

Amounts provided for landfill post-closure are capitalised to the landfill asset where they give rise to future economic benefits to be obtained. Components of the capitalised landfill asset are depreciated over their useful lives.

The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to Council.

**u) Internal Borrowings**

Internal borrowings are eliminated on consolidation of activities in the Council's financial statements.

**v) Critical Accounting Estimates and Assumptions**

In preparing these financial statements SDC has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations or future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

*Infrastructural assets*

There are a number of assumptions and estimates used when performing depreciated replacement cost (DRC) valuations over infrastructural assets. These include:

The physical deterioration and condition of an asset. For example, Council could be carrying an asset at an amount that does not reflect its actual condition. This is particularly so for those assets which are not visible, for example stormwater, wastewater and water supply pipes that are underground.

- estimating any obsolescence or surplus capacity of an asset;
- estimating the replacement cost of the asset. The replace cost is derived from recent construction contracts; and
- estimating any obsolescence or surplus capacity of an asset.
- estimates are made when determining the remaining useful lives over which the asset will be depreciated. These estimates can be impacted by the local conditions, for example weather patterns and traffic growth. If useful lives do not reflect the actual consumption of the benefits of the asset, then SDC could be over or under estimating the annual depreciation charge recognised as an expense in the Statement of comprehensive revenue and expense.

To minimise this risk SDC's infrastructural asset useful lives have been determined with reference to the NZ Infrastructural Asset Valuation and Depreciation Guidelines published by the National Asset Management Steering Group, and have been adjusted for local conditions based on past experience.

Asset inspections, deterioration and condition modelling are also carried out regularly as part of SDC's asset management planning activities, which gives Council further assurance over its useful life estimates.

Experienced independent valuers perform Council's infrastructural asset revaluations.

**w) Critical Judgements in Applying SDC's Accounting Policies**

Management has exercised the following critical judgements in applying SDC's accounting policies for the period ended 30 June 2020:



*Classification of property*

SDC owns a number of properties that are maintained primarily to provide housing to pensioners. The receipt of rental income from these properties is incidental to holding these properties. These properties are held for service delivery objectives as part of SDC's social housing policy and are accounted for as property, plant and equipment rather than as investment property.

**x) Statement of Cashflows**

Operating activities include cash and cash equivalents (as defined in (g) above) received from all SDC's income sources and record the cash payments made for the supply of goods and services.

Investing activities are those activities relating to the acquisition and disposal of non-current assets.

Financing activities comprise the change in equity and debt capital structure of SDC.

**y) Rounding**

Some rounding variances may occur in the financial statements due to the use of decimal places in the underlying financial data.

**z) Budget figures**

The budget figures are those approved by SDC in its 2019/2020 Annual Plan. The budget figures have been prepared in accordance with New Zealand Generally Accepted Accounting Practice and are consistent with the accounting policies adopted by SDC for the preparation of financial statements.

**(aa) Change in accounting policies**

There have been no changes in accounting policies for the year ended 30 June 2020.

**(ab) Standards issued and not yet effective that have not been early adopted**

Standards and amendments, issued but not yet effective that have not been early adopted are:

- *PBE FRS 48 Service Performance Reporting*
- *PBE IPSAS 40 PBE Combinations*
- *PBE IFRS 9 Financial Instruments*
- *PBE IFRS 17 Insurance Contracts*
- *PBE IPSAS 41 Financial Instruments*

**Accounting for related entities – Overall Summary June 2020**

Entity	Current accounting standard (30 June 2019 and earlier)	Upcoming accounting standard (effective for periods beginning on or after 1 January 2019)	Current Accounting approach (30 June 2019 and earlier)	Upcoming accounting approach (30 June 2020 and beyond)
Venture Southland	Jointly Controlled Entity (PBE IPSAS 8)	Associate (PBE IPSAS 36)	Proportionate Consolidation	Equity Accounting, however anticipated to be wound up by 30 June 2020.
Southland Regional Heritage Committee	Jointly Controlled Entity (PBE IPSAS 8)	Associate (PBE IPSAS 36)	Disclosure in the notes to the financial statements	Equity Accounting
Emergency Management Southland	Jointly Controlled Entity (PBE IPSAS 8)	Associate (PBE IPSAS 36)	Account for our contribution to EMS only.	Equity Accounting
WasteNet	Jointly Controlled Operation (PBE IPSAS 7)	Joint Arrangement (PBE IPSAS 37)	Account for our payments to WasteNet only.	Account for Council's share of revenue, expenses, assets and liabilities
Milford Community Trust	Controlled Entity (PBE IPSAS 6)	Controlled Entity (PBE IPSAS 35)	Disclosure in CCO section of the annual report, including financial information. <i>Commenced consolidation into Group accounts at 30 June 2019.</i>	<i>Consolidate into Group accounts.</i>
Southland Museum and Art Gallery Trust	Associate (PBE IPSAS 7)	Associate (PBE IPSAS 36)	Disclosure in CCO section of the annual report, including financial information	<i>No equity held to be able to undertake equity accounting. Disclosure in CCO section of the annual report, including financial information.</i>
Southland Regional Development Authority	N/A - only set up in 2018	Associate (PBE IPSAS 36)	Only set up in 2018. <i>Equity accounting.</i>	Equity Accounting. <i>Disclosure in CCO section of the annual report, including financial information.</i>
Whakamana Te Waituna Charitable Trust	N/A - only set up in 2018	Associate (PBE IPSAS 36)	Only set up in 2018. <i>No equity held to be able to undertake equity accounting. Account for our contribution to WTWCT only.</i>	No equity held to be able to undertake equity accounting. Account for our contribution to WTWCT only.

*Note: Text in italics represent updates from December 2018 version of this table.*

## Quarterly risk management report - June 2020

**Record No:** R/20/5/10858  
**Author:** Jane Edwards, Policy Analyst  
**Approved by:** Rex Capil, Group Manager Community and Futures

☐ Decision ☒ Recommendation ☐ Information

### Purpose

- 1 The purpose of this report is to:
  - a) submit the June 2020 Quarterly Risk Management Report for consideration by the Finance and Assurance Committee (the committee)
  - b) following review of priority weightings, this report also seeks recommendation to Council for the adoption of Council's revised top strategic risks, to become effective 1 July 2020.

### Executive Summary

- 2 Risk management is about identifying events that may occur in the future that will have an impact on Council's objectives. Council's approach to risk management involves four key steps:
  - a) identifying the risk
  - b) evaluating the severity of any identified risks
  - c) applying possible solutions to those risks
  - d) monitoring and analysing the effectiveness of any subsequent steps taken.
- 3 A risk management framework (RMF) was adopted by Council in February 2019. This framework supports risk thinking across Council so that risk can be understood, planned for and mitigated across all levels and activities.
- 4 As part of the RMF, Council's priority strategic and corporate risks were also identified and endorsed in February 2019 and these form the basis of the Finance and Assurance Committee quarterly risk report including the risk register.
- 5 The executive leadership team (ELT) have reviewed the status of the primary strategic risks for the June 2020 quarter and they are presented as Attachment A with their assessment, any current and proposed mitigations, and their residual risk assessment.
- 6 Risks are ranked in accordance with their priority weighted scoring from highest to lowest. The current risk scorings were assessed at the workshops facilitated by Structured Conversations in October 2018. As a living document, these scorings are required by the RMF to be reviewed formally on a six-monthly or as required basis.
- 7 The latest review of the risk register priority weightings took place on 10 February 2020 and the revised priority weightings are presented as Attachment B for the committee's consideration.

- 8 This report seeks recommendation from the committee that Council adopts the revised top strategic risks at its meeting 23 June 2020 with a proposed operational date of 1 July 2020.
- 9 The matrices used to assess the risks are included for information as Attachment C.

## Recommendation

### That the Finance and Assurance Committee:

- a) **Receives the report titled “Quarterly risk management report - June 2020” dated 16 June 2020.**
- 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) **Considers and gives feedback on the revised priority weightings**
- e) **Notes that the addition of an emergent risk and elevation of a previously lower ranked risk to the top ten strategic risks displaces the two lowest ranking risks on the current register**
- f) **Recommends that Council adopt the revised top strategic risks as follows to become effective 1 July 2020:**
  1. **Inaccurate data leads to bad decisions/asset failure**
  2. **Underinvestment in infrastructure**
  3. **Infrastructure not fit for purpose to withstand climate change**
  4. **Inadequate, incomplete or lack of strategy/policy impacts the wellbeing of the District**
  5. **Natural or biosecurity event impacts the wellbeing of the District**
  6. **Health and safety controls fail to protect staff and contractor safety**
  7. **Financial conservatism constrains progress towards strategic objectives**
  8. **Difficulty retaining or recruiting staff affects service levels**
  9. **Over-commitment leads to inability to deliver agreed work programme**
  10. **Growth and demand dependent model makes it hard to fund new infrastructure.**

## Quarterly Risk Report

### Background

- 10 The top 10 priority risks endorsed by Council are jointly owned by the ELT and form the basis of the Finance and Assurance Committee risk register.
- 11 The ELT review the status of the 10 primary strategic and corporate risks, and any emerging operational risks, on a quarterly basis and this report is then presented to the committee for

consideration. After feedback from the committee each quarter, the RMF requires those risks categorised as very high and high to be reported to the next Council meeting.

- 12 Risks are ranked in accordance with their priority weighted scoring from highest to lowest. The current risk scorings were assessed at the workshops facilitated by Structured Conversations in October 2018. As a living document, these scorings are required by the RMF to be reviewed formally on a six monthly or as required basis.
- 13 The consequences, likelihoods and thresholds for each risk have been given after review of the ELT risk register and they are a reflection of the highest assessed aspect of each risk for this current quarter.
- 14 The status of each risk is a summary of the mitigations that are currently in place for each risk and indicate whether the mitigations are assessed of causing the threshold to rise, lower or remain in place.

### Overview of Council's Highest Strategic Risks

- 15 The risk register update for the June 2020 quarter is attached as Attachment A.
- 16 Of particular note is the increased priority weighting of the risk of a natural or biohazard event impacting on the wellbeing of the District. This risk had already been identified in October 2018 and assessed as 14<sup>th</sup> on the risk register. With the risk presently realised, in the form of pandemic, the priority weighting was reviewed by ELT at a workshop in May 2020 and this risk will move into fifth position on the strategic register.
- 17 Staff will continue to assess the mitigation and response phase of this realised risk in both the immediate and short term and this will be reflected in updates to the committee in the next reporting cycle. Preliminary work undertaken on this risk is included in the June quarterly risk register as Attachment A.
- 18 The impacts of COVID-19 across all of Council's strategic risks has been considered by the ELT and this is reflected in mitigations which have been put in place to address these impacts.

In the majority of cases, these adjustments have not impacted on the overall risk thresholds however the following risks thresholds have changed:

Risk 2 - Inaccurate data leads to bad decisions/asset failure.

This risk has increased from High to Very High pre-mitigation. Post-mitigation has increased from Medium to High

This increase is due to an additional aspect of the risk which reflects the consequence of data collection not being perceived as a core service of Council. The consequence of this risk being realised has been assessed as Major/Catastrophic pre-mitigation and as a result has increased the risk threshold.

Risk 8 - Difficulty retaining or recruiting staff affects service levels

This risk has reduced from High to Medium pre-mitigation.

This decrease is due to the increased availability of skilled staff at this present time and the resource sharing that is currently taking place with other councils.

- 19 While some risk thresholds have remained the same, aspects of a risk may have meant that their status on the risk register has changed. Risks with statuses that are assessed as ‘worsening’ are reflecting aspects of the COVID-19 situation that are currently being realised and are under watching brief. Risk thresholds may not change where there are mitigations in place or where the COVID-19 impacts do not have consequences higher than those already reflected elsewhere in the risk.

These risks are as follows:

**Risk 5 – Over commitment and work programme**

This risk is assessed as worsening due to the impact of COVID-19 on the delivery of team business plans. This aspect of risk 5 is assessed as High pre-mitigation dropping to Medium post-mitigation but does not affect the overall risk threshold.

**Risk 9 – Growth dependent model makes it hard to fund new infrastructure.**

This risk has had its likelihood adjusted from Likely to Highly Likely in the current COVID-19 environment. This does not impact on the overall risk threshold which remains at High however the status is reflective of the impact of the potential worsening of access to funding despite increasing need.

### **Emergent Risks**

- 20 One emergent risk has been identified for the June 2020 quarter:
- inadequate, incomplete or lack of strategy/policy impacts the wellbeing of the District.
- 21 This risk highlights the potential that a lack of consistent strategic direction-setting could result in poorly aligned and uninformed decisions that impact the community.
- 22 This potential emergent risk was considered by the ELT at a workshop 25 May 2020. Assessment of its priority weighting places it fourth on both the current and revised risk register. Details of the raw weightings assigned to it are included in Attachment B.
- 23 In light of this, it has been included on the revised top strategic risks to be considered by the committee and which will be presented to Council for adoption at its 23 June 2020 meeting.

### **Operational Risk Assurance**

- 24 The next step is to review the operational risk register development process and ensure that it is appropriate and aligns with the risk management framework. This is scheduled to begin later this year.
- 25 In the interim, Council’s chief executive will provide an operational risk report to the committee in a separate report.
- 26 Group managers will continue to work with their respective teams to identify and mitigate operational risks.

### **Revised priority weightings**

- 27 The ELT met on 24 February 2020 to undertake a review of the priority scorings of Council’s top corporate and strategic risks.

- 28 As a living document, the risk management framework (the RMF) requires the ELT to review the priority scorings on a six-monthly basis to ensure the risks that make up the top corporate and strategic register are relevant and current.
- 29 It was proposed that instead of the six-monthly review period specified in the RMF, an annual review of priority scorings would be more appropriate and a 1 July operational date each year would bring the risk register into line with Council's start of financial year.
- 30 The proposed change from a six-monthly to an annual review period and the operational date of 1 July 2020 were supported by the ELT.
- 31 The ELT reviewed, in ranked order, the ten priority risks on the current risk register. These risks had weighted scores previously assessed at a workshop in October 2018 and had elected member and staff input.
- 32 The review was undertaken in line with the process outlined in the RMF which states the five priority criteria that each risk must be assessed against in order to be assigned a weighted score. These are as follows:
- the potential for at-fault death
  - the potential for financial disaster
  - the threat to Long Term Plan objectives
  - the level of influence over drivers or outcomes
  - the immediate impact of treatment or control
- 33 The revised risk priority scorings are attached to this report as attachment C.
- 34 It had been anticipated that, with the length of time between the original assessment and review, coupled with a dissimilar group undertaking the review, that the resultant risk rankings might change substantially.
- 35 The changes made at the February workshop are as follows:
- three risks remained in their original ranked position, four risks were ranked higher than previously, and three risks moved down the risk register.
  - 'underinvestment in infrastructure' was replaced by 'inaccurate data leading to bad decisions/asset failure' as Council's highest priority risk.
  - 'difficulty retaining or recruiting staff affects service levels' had greatest increase in rank, moving up the register two places.
  - 'over commitment and work programme' and 'key people leave with organisational knowledge' had greatest decrease in ranking, each moving down the register two places.
- 36 In general, revised weightings were scored more conservatively than originally.
- 37 When originally scored, raw weights of 'five' (catastrophic/highly likely) were given to individual priority criteria of five risks. When reviewed, no raw scores of 'five' were given, meaning that the

ELT did not consider any consequence, coupled with likelihood, in the current strategic risks to be catastrophic, nor highly likely.

- 38 Conversely, weights of 'one' (rare/insignificant) were previously given to individual priorities within six of the ten risks. Upon review, only three risks contained criteria that were assessed with scores of 'one'.
- 39 ELT consideration was also given to those risks ranked as 11-17 in the previous assessment to see whether any one of these should be considered as ranking higher than those listed as risks 1-10. No other risk was considered of high enough priority to replace the ten listed in the revised register. 'Natural or biosecurity event impacts economy/industry' was highlighted as worth exploring further but at the February workshop it was not deemed urgent at that time.
- 40 The impacts of the COVID-19 pandemic occurred subsequent to the February workshop and necessitated the prompt consideration of Risk 14 in view of the risk being realised. This assessment was undertaken by the ELT at a workshop 25 May 2020. The assessment of the risk is shown in the following table, with the raw weightings included in Attachment B.

<b>Risk: Natural or biosecurity event impacts the wellbeing of the District</b>	<b>Consequence</b>	<b>Likelihood</b>
Potential for at-fault death	Catastrophic	Rare
Potential for financial disaster	Moderate	Unlikely
Threat to Long Term Plan objectives	Moderate	Possible
Council's level of influence over drivers or outcomes	Moderate	Possible
The immediate impact of treatment or control	Minor	Rare

- 41 The reviewed weighting of this risk and the proposed inclusion of the emergent strategic deficit risk has resulted in the risks currently ranked ninth and tenth being displaced from the revised top ten strategic risks.
- 42 The proposed inclusion of the two risks has also meant that risks 6 – 12 have been forced downwards in rank despite the changes in ranking stated in paragraph 36 of this report. These original changes in rank made in February are still important to note.
- 43 Staff request the committee consider whether it is comfortable that reporting continues on the top ten risks going forward or whether it would prefer reporting to extend to the top twelve.



## Analysis of Options

### Option 1 – that the committee endorses the revised top ten strategic risks for adoption by Council

<i>Advantages</i>	<i>Disadvantages</i>
<ul style="list-style-type: none"> <li>this ensures clarity and focus is given to those risks deemed as most important to Council</li> <li>this approach is consistent with the risk management reporting to date</li> </ul>	<ul style="list-style-type: none"> <li>this may mean that risks that have to date been deemed high priority do not continue to have the same level of scrutiny placed upon them</li> </ul>

### Option 2 – that the committee endorses extending reporting to the revised top twelve strategic risks for adoption by Council

<i>Advantages</i>	<i>Disadvantages</i>
<ul style="list-style-type: none"> <li>this will ensure the continued high level of scrutiny on risks that have to date been considered amongst Council's highest</li> </ul>	<ul style="list-style-type: none"> <li>extending the risk management reporting may have implications for the clear focus on what Council's top strategic risks are</li> <li>extending the risks contained on the strategic risk register may be impractical for risk management and reporting in the future</li> </ul>

## Recommendation

- 44 Staff recommend option 1 - that the committee endorses the revised top ten strategic risks for adoption by Council

## Next Steps

- 45 Following the committee's consideration of the June quarterly risk management update, those strategic risks that are assessed as high or very high will be reported to Council at its 23 June 2020 meeting.
- 46 Following consideration by the committee, staff will present the revised top strategic risks to Council at its 23 June 2020 meeting seeking adoption with an operational date of 1 July 2020.

## Attachments

- A Risk register - Finance & Assurance committee - June 2020 quarter [↓](#)
- B Revised priority weightings - Finance & Assurance committee - June 2020 [↓](#)
- C Risk Management Framework - risk matrices [↓](#)



## Finance and Assurance Committee – Quarterly risk update June 2020

### KEY:

CONSEQUENCE	INSIGNIFICANT	MINOR	MODERATE	MAJOR	CATASTROPHIC
LIKELIHOOD	RARE	UNLIKELY	POSSIBLE	LIKELY	HIGHLY LIKELY
THRESHOLD		LOW	MEDIUM	HIGH	VERY HIGH
STATUS		IMPROVING	STATIC	WORSENING	

RISK 1	Underinvestment in infrastructure	Weighted score: 4.10	Status: Improving
DESCRIPTION	Failure to maintain infrastructure that has the capacity and capability needed to meet an agreed level of service		
PRE TREATMENT	Consequence: Major/Catastrophic	Likelihood: Possible	
CURRENT THRESHOLD	VERY HIGH		
CURRENT MITIGATIONS	<ul style="list-style-type: none"> <li>• allocation of appropriate funding and resources to deliver the prioritised work plan identified through the Infrastructure Strategy and the Activity Management Plan process</li> <li>• development of a prioritised programme to address deficits to an acceptable level over time is underway</li> <li>• development of established minimum levels of service (LoS) for community facilities</li> <li>• business continuity planning</li> <li>• E-delivery project and regular updating of IT equipment</li> <li>• Council buildings assessed as fit for purpose</li> <li>• assess proposed austerity measures using assessment framework approved by Council</li> </ul>		
POST TREATMENT	Consequence: Major/Catastrophic	Likelihood: Unlikely	
TARGET THRESHOLD	HIGH		
PROPOSED MITIGATIONS	<ul style="list-style-type: none"> <li>• look to 'quantify', in descriptive and financial terms, the extent of the deficit in different asset and service areas</li> <li>• set targets for 2021 Long Term Plan and beyond</li> </ul>		



	<ul style="list-style-type: none"><li>• assessment of risk thresholds in different service areas to be undertaken by the executive leadership team and group managers</li><li>• allocation and delivery of appropriate funding and resources to deliver the prioritised work programme identified through the Infrastructure Strategy and work plan</li><li>• development of a prioritised programme to address deficits to an acceptable level over time is underway</li></ul>
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<b>RISK 2</b>	<b>Inaccurate data leads to bad decisions/asset failure</b>		<b>Weighted score:</b> 3.90	<b>Status:</b> Worsening
<b>DESCRIPTION</b>	Council does not have the data and information it needs to make informed decisions			
<b>PRE TREATMENT</b>	<b>Consequence:</b>	Major/Catastrophic	<b>Likelihood:</b>	Likely
<b>THRESHOLD</b>	VERY HIGH			
<b>CURRENT MITIGATIONS</b>	<ul style="list-style-type: none"> <li>• review and prioritisation of data analytics</li> <li>• systems integration</li> <li>• community facilities implementing asset management data tool</li> <li>• Master Data Specifications for Council</li> <li>• contract alignment to asset management processes</li> <li>• improve internal cost estimation process</li> <li>• ensure communication with communities is appropriate and accurate throughout identified project milestones</li> <li>• ensure staff are trained and supported to adequately use the tools they have available</li> </ul>			
<b>POST TREATMENT</b>	<b>Consequence:</b>	Major/Catastrophic	<b>Likelihood:</b>	Unlikely
<b>TARGET THRESHOLD</b>	HIGH			
<b>PROPOSED MITIGATIONS</b>	<ul style="list-style-type: none"> <li>• create process for independent review and independent reconciliation</li> <li>• Infor Public Sector (IPS)/Geographic Information System (GIS) management process to be established</li> <li>• consolidated data team with Business Analyst &amp; GIS resources</li> <li>• look at reporting options through JDE (Council's accounting tool) to enable managers to assess summary to detail information easily</li> </ul>			



<b>RISK 3</b>	<b>Infrastructure not fit for purpose to withstand climate change</b>		<b>Weighted score:</b> 3.35	<b>Status:</b> Static
<b>DESCRIPTION</b>	Infrastructure fails to deliver the agreed levels of service as a result of changing weather patterns			
<b>PRE TREATMENT</b>	<b>Consequence:</b>	Moderate	<b>Likelihood:</b>	Possible
<b>THRESHOLD</b>	<b>MEDIUM</b>			
<b>CURRENT MITIGATIONS</b>	<ul style="list-style-type: none"> <li>research programme, including stakeholder input, to develop a position on likely changes in future demands for Council services</li> <li>review of activity against the climate change assumptions in the Long Term Plan, and make investments and delivery decisions appropriately</li> <li>options to reduce risks posed to lifeline infrastructure to be considered</li> </ul>			
<b>POST TREATMENT</b>	<b>Consequence:</b>	Moderate	<b>Likelihood:</b>	Possible
<b>TARGET THRESHOLD</b>	<b>MEDIUM</b>			
<b>PROPOSED MITIGATIONS</b>	<ul style="list-style-type: none"> <li>building climate change impact assessments into business cases and activity management plans</li> </ul>			



<b>RISK 4</b>	<b>Health and safety controls fail to protect staff and contractor safety</b>		<b>Weighted score:</b> 3.20	<b>Status:</b> Improving
<b>DESCRIPTION</b>	Systems processes and controls fail to protect our workers			
<b>PRE TREATMENT</b>	<b>Consequence:</b>	Catastrophic	<b>Likelihood:</b>	Possible
<b>THRESHOLD</b>	VERY HIGH			
<b>CURRENT MITIGATIONS</b>	<ul style="list-style-type: none"> <li>comprehensive audit framework</li> <li>ensure correct procurement/contractor induction processes in place for all project work</li> <li>use of assessment methodology to identify the potential corrective actions required</li> <li>training and education of contractors</li> <li>pre-qualification process for contractors which ensures that their systems and processes are up to date</li> <li>appropriate health and safety controls in response to lockdown requirements due to COVID-19</li> </ul>			
<b>POST TREATMENT</b>	<b>Consequence:</b>	Catastrophic	<b>Likelihood:</b>	Unlikely
<b>TARGET THRESHOLD</b>	HIGH			
<b>PROPOSED MITIGATIONS</b>	<ul style="list-style-type: none"> <li>site observations of contractors undertaken by all contract managers and activity managers</li> <li>GPS to be introduced in all Council vehicles in 2020</li> <li>introduction of fatigue guidelines and a drug and alcohol policy</li> <li>creation of a wellbeing programme</li> </ul>			



<b>RISK 5</b>	<b>Over commitment and work programme</b>		<b>Weighted score:</b> 2.70	<b>Status:</b> Worsening
<b>DESCRIPTION</b>	Unable to deliver the organisations's agreed work programme			
<b>PRE TREATMENT</b>	<b>Consequence:</b>	Moderate	<b>Likelihood:</b>	Highly likely
<b>THRESHOLD</b>	<b>HIGH</b>			
<b>CURRENT MITIGATIONS</b>	<ul style="list-style-type: none"> <li>• executive leadership team to ensure work programme is deliverable, achievable and resourced</li> <li>• create an understanding/recognition of purpose and roles/responsibilities that come with Long Term Plan</li> <li>• understand capacity and capability and ensure realistic commitments</li> <li>• ensure adequate planning and correct resources, including contractors availability, for the achievement of the plan</li> <li>• use of CAMMs (Council's project management tool)</li> </ul>			
<b>POST TREATMENT</b>	<b>Consequence:</b>	Minor	<b>Likelihood:</b>	Likely
<b>TARGET THRESHOLD</b>	<b>MEDIUM</b>			
<b>PROPOSED MITIGATIONS</b>	<ul style="list-style-type: none"> <li>• implement robust team business planning and reporting processes</li> <li>• ensure adequate community engagement</li> </ul>			



<b>RISK 6</b>	<b>Financial conservatism constrains progress towards strategic objectives</b>		<b>Weighted score:</b> 2.60	<b>Status:</b> Improving
<b>DESCRIPTION</b>	Council's work programme and levels of service are constrained to conservative financial targets being set.			
<b>PRE TREATMENT</b>	<b>Consequence:</b>	Major	<b>Likelihood:</b>	Likely
<b>THRESHOLD</b>	VERY HIGH			
<b>CURRENT MITIGATIONS</b>	<ul style="list-style-type: none"> <li>• work to understand prioritisation, delivery and affordability across the district that brings a greater understanding of generational responsibility</li> <li>• robust business cases, with clear strategic objectives, will help put projects in context of other works needed and help achieve strategic outcomes and transparency</li> </ul>			
<b>POST TREATMENT</b>	<b>Consequence:</b>	Major	<b>Likelihood:</b>	Possible
<b>TARGET THRESHOLD</b>	HIGH			
<b>PROPOSED MITIGATIONS</b>	<ul style="list-style-type: none"> <li>• next Long Term Plan – what are the challenges for the next ten years? Identify financial requirements, levels of service and risk</li> <li>• better data needed to make good business decisions</li> <li>• investigate sources of revenue and funding</li> </ul>			





<b>RISK 7</b>	<b>Key people leave with organisational knowledge, impacting business continuity</b>		<b>Weighted score:</b> 2.30	<b>Status:</b> Static
<b>DESCRIPTION</b>	Council is unable to maintain levels of service due to uncaptured knowledge.			
<b>PRE TREATMENT</b>	<b>Consequence:</b>	Minor	<b>Likelihood:</b>	Likely
<b>THRESHOLD</b>	MEDIUM			
<b>CURRENT MITIGATIONS</b>	<ul style="list-style-type: none"> <li>ensuring there are adequate processes and succession plans including mentoring programme</li> <li>ensuring that tools for knowledge sharing and capture are being fully utilised and their purpose understood</li> <li>undertake review of pandemic plan</li> <li>undertake review of business continuity planning</li> </ul>			
<b>POST TREATMENT</b>	<b>Consequence:</b>	Minor	<b>Likelihood:</b>	Possible
<b>TARGET THRESHOLD</b>	MEDIUM			
<b>PROPOSED MITIGATIONS</b>	<ul style="list-style-type: none"> <li>ensuring planning schedules are developed to the appropriate level of detail for the project undertaken, outlining outcomes and expectations at each stage</li> <li>delivery of action plans following the implementation of the workforce strategy framework</li> </ul>			



<b>RISK 8</b>	<b>Difficulty retaining or recruiting staff affects service levels</b>	<b>Weighted score:</b> 2.10	<b>Status:</b> Improving
<b>DESCRIPTION</b>	Lack of accredited, specialised and experienced staff available across multiple industries locally, regionally and nationally		
<b>PRE TREATMENT</b>	<b>Consequence:</b> Moderate	<b>Likelihood:</b> Possible	
<b>THRESHOLD</b>	MEDIUM		
<b>CURRENT MITIGATIONS</b>	<ul style="list-style-type: none"> <li>• look after staff by building a culture that encourages staff to stay and to recruit into</li> <li>• monitoring organisational climate</li> <li>• working closely with industry providers and training institutions</li> <li>• currently resource sharing with other councils</li> </ul>		
<b>POST TREATMENT</b>	<b>Consequence:</b> Moderate	<b>Likelihood:</b> Possible	
<b>TARGET THRESHOLD</b>	MEDIUM		
<b>PROPOSED MITIGATIONS</b>	<ul style="list-style-type: none"> <li>• potential for secondments, internships and development of a cadet system</li> </ul>		



RISK 9	Growth and demand dependent model makes it hard to fund new infrastructure		Weighted score: 2.00	Status: Worsening
DESCRIPTION	Inability to access funding, despite increasing need, due to lack of eligibility			
PRE TREATMENT	Consequence:	Moderate	Likelihood:	Highly Likely
THRESHOLD	HIGH			
CURRENT MITIGATIONS	<ul style="list-style-type: none"><li>• lobby available funding sources where appropriate</li><li>• researching and identifying why and where Council is ineligible</li></ul>			
POST TREATMENT	Consequence:	Moderate	Likelihood:	Highly Likely
TARGET THRESHOLD	HIGH			
PROPOSED MITIGATIONS	<ul style="list-style-type: none"><li>• consider the demand and need for new infrastructure – consideration to be given to whether replacement is ‘like-for-like’</li></ul>			



<b>RISK 10</b>	<b>Population decline will impact the viability of small communities</b>		<b>Weighted score:</b> 2.00	<b>Status:</b> Static
<b>DESCRIPTION</b>	Impacts on affordability, sustainability and levels of service creates vulnerability with resultant decline in wellbeings.			
<b>PRE TREATMENT</b>	<b>Consequence:</b>	Moderate	<b>Likelihood:</b>	Possible
<b>THRESHOLD</b>	<b>MEDIUM</b>			
<b>CURRENT MITIGATIONS</b>	<ul style="list-style-type: none"> <li>• utilisation assessment work needed</li> <li>• futures-based planning work to understand projected future demand by community</li> <li>• community-led development work to encourage individual communities to take ownership of their future</li> </ul>			
<b>POST TREATMENT</b>	<b>Consequence:</b>	Moderate	<b>Likelihood</b>	Possible
<b>TARGET THRESHOLD</b>	<b>MEDIUM</b>			
<b>PROPOSED MITIGATIONS</b>	<ul style="list-style-type: none"> <li>• discussions with declining communities around prioritisation and service provision</li> <li>• review of the Revenue and Financing policy to consider the implications of this risk on the community</li> </ul>			



RISK 14	Natural or biosecurity event impacts the wellbeing of the District	WEIGHTED SCORE		STATUS		
DESCRIPTION	External event negatively impacts the landscape that Council is operating in and/or its communities					
EXAMPLES:	PRE MITIGATION			POST MITIGATION		
	Consequence	Likelihood	Risk	Consequence	Likelihood	Risk
Council provides ineffective response to external event which results in prosecutions, financial loss and reputational damage	Major/Catastrophic	Unlikely	High	Moderate	Rare	Low
External event results in impacts on the physical and/or mental wellbeing of staff, contractors and the community	Major	Unlikely	Medium	Moderate	Unlikely	Low
Vulnerability of ratepayers impacts the viability of Council’s agreed work programme and the Long Term Plan	Major/Catastrophic	Rare	Medium	Moderate	Rare	Low
Uncertainty of alternative revenue streams impacts the viability of Council’s agreed work programme and the Long Term Plan	Major	Rare	Medium	Moderate	Rare	Low
Impacts to national and global supply chains impacts the viability of Council’s agreed work programme and the Long Term Plan	Major	Rare	Medium	Moderate	Rare	Low
Council fails to comply with legislative requirements	Major	Rare	Medium	Moderate	Rare	Low

PROPOSED MITIGATION PROCESS	RESPONSIBILITY	DUE DATE	UPDATE
Pandemic preparedness and planning			Pandemic policy updated IMT established Working with other councils and agencies in the region



PROPOSED MITIGATION PROCESS	RESPONSIBILITY	DUE DATE	UPDATE
Essential services prioritisation			
Adequate financial capacity in place to assist with recovery costs			Review of financial strategy
Consider whether provisions should be put in place if people not able to pay rates			Review of rates postponement policy
Research programme, including stakeholder input, to develop a position on likely changes in future demands for Council services			
Business continuity plans completed in order to assist in incident management and response			
Provision of funding and resources to EMS to assist with CDEM			



## Revised priority weightings – Finance and Assurance committee

Mon 22 June 2020

Risk priority scorings – reviewed and agreed by the executive leadership team Monday 25 May 2020.

RANK	RISK	CURRENT WEIGHTED SCORE / RANKING	PROPOSED WEIGHTED SCORE	RANK CHANGE
1	Inaccurate data leads to bad decisions/asset failure	3.90 / 2	3.50	↑
2	Underinvestment in infrastructure	4.10 / 1	3.40	↓
3	Infrastructure not fit for purpose to withstand climate change	3.35 / 3	3.00	↔
4	Inadequate, incomplete or lack of strategy/policy impacts the wellbeing of the District	NEW	2.85	NEW
5	Natural or biosecurity event impacts the wellbeing of the District	1.75 / 14	2.70	↑
6	Health and safety controls fail to protect staff and contractor safety	3.20 / 4	2.55	↓
7	Financial conservatism constrains progress towards strategic objectives	2.60 / 6	2.55	↓
8	Difficulty retaining or recruiting staff affects service levels	2.10 / 8	2.40	↔
9	Over-commitment leads to inability to deliver agreed work programme	2.70 / 5	2.30	↓
10	Growth and demand dependent model makes it hard to fund new infrastructure	2.00 / 9	2.00	↓
11	Absence of key people with organisational knowledge impacts business continuity	2.30 / 7	1.70	↓
12	Viability of small communities is impacted by population decline	2.00 / 10	1.45	↓

Revised priority weightings – Finance and Assurance committee  
21/06/2020

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**Risk 1:** Inaccurate data leads to bad decisions / asset failure

**Description:** Council does not have the data and information it needs to make informed decisions

**Risk priority scoring:**

	WEIGHTING	CURRENT RAW	PROPOSED RAW	CURRENT WEIGHT	PROPOSED WEIGHT
Potential for at-fault death	30%	3.50	4.00	1.10	1.20
Potential for financial disaster	25%	4.00	4.00	1.00	1.00
Threat to LTP objectives	20%	4.00	3.00	0.80	0.60
Level of influence over drivers or outcomes	15%	5.00	3.00	0.80	0.45
Immediate impact of treatment or control	10%	3.00	2.50	0.30	0.25
<b>SCORE</b>		19.50	16.50	3.90	3.50





**Risk 2:** Underinvestment in infrastructure

**Description:** Failure to maintain infrastructure that has the capacity and capability needed to meet an agreed level of service

**Risk priority scoring:**

	WEIGHTING	CURRENT RAW	PROPOSED RAW	CURRENT WEIGHT	PROPOSED WEIGHT
Potential for at-fault death	30%	4.00	3.50	1.20	1.05
Potential for financial disaster	25%	3.00	3.00	0.80	0.75
Threat to LTP objectives	20%	5.00	3.50	1.00	0.70
Level of influence over drivers or outcomes	15%	5.00	3.50	0.80	0.50
Immediate impact of treatment or control	10%	4.00	4.00	0.40	0.40
<b>SCORE</b>		21.00	17.50	4.10	3.40



**Risk 3:** Infrastructure not fit for purpose to withstand climate change

**Description:** Infrastructure fails to deliver the agreed levels of service as a result of changing weather patterns

**Risk priority scoring:**

	WEIGHTING	CURRENT RAW	PROPOSED RAW	CURRENT WEIGHT	PROPOSED WEIGHT
Potential for at-fault death	30%	3.00	3.50	0.90	1.05
Potential for financial disaster	25%	3.00	3.00	0.80	0.75
Threat to LTP objectives	20%	4.00	3.50	0.80	0.70
Level of influence over drivers or outcomes	15%	4.00	2.00	0.60	0.30
Immediate impact of treatment or control	10%	3.00	2.00	0.30	0.20
<b>SCORE</b>		17.00	14.00	3.35	3.00



**Risk 4:** Inadequate, incomplete or lack of strategy/policy impacts the wellbeing of the District

**Description:** Lack of strategic direction-setting results in poorly aligned and uninformed decisions

**Risk priority scoring:**

	WEIGHTING	CURRENT RAW	PROPOSED RAW	CURRENT WEIGHT	PROPOSED WEIGHT
Potential for at-fault death	30%	-	3.00	-	0.90
Potential for financial disaster	25%	-	3.00	-	0.75
Threat to LTP objectives	20%	-	2.50	-	0.50
Level of influence over drivers or outcomes	15%	-	3.00	-	0.45
Immediate impact of treatment or control	10%	-	2.50	-	0.25
<b>SCORE</b>		-	<b>14.00</b>	-	<b>2.85</b>

- No previous raw data available for comparison



**Risk 5:** Natural or biosecurity event impacts the wellbeing of the District

**Description:** External event negatively impacts the landscape Council is operating in

**Risk priority scoring:**

	WEIGHTING	CURRENT RAW	PROPOSED RAW	CURRENT WEIGHT	PROPOSED WEIGHT
Potential for at-fault death	30%	-	3.00	-	0.90
Potential for financial disaster	25%	-	2.50	-	0.60
Threat to LTP objectives	20%	-	3.00	-	0.60
Level of influence over drivers or outcomes	15%	-	3.00	-	0.45
Immediate impact of treatment or control	10%	-	1.50	-	0.15
<b>SCORE</b>		-	<b>13.00</b>	1.75	<b>2.70</b>

- No previous raw data available for comparison



**Risk 6:** Health and safety controls fail to protect staff and contractors' safety

**Description:** Systems, processes and controls fail to protect our workers

**Risk priority scoring:**

	WEIGHTING	CURRENT RAW	PROPOSED RAW	CURRENT WEIGHT	PROPOSED WEIGHT
Potential for at-fault death	30%	5.00	3.50	1.50	1.05
Potential for financial disaster	25%	2.00	2.50	0.50	0.60
Threat to LTP objectives	20%	1.00	2.00	0.20	0.40
Level of influence over drivers or outcomes	15%	4.00	2.00	0.60	0.30
Immediate impact of treatment or control	10%	4.00	2.00	0.40	0.20
<b>SCORE</b>		16.00	12.00	3.20	2.55



**Risk 7:** Financial conservatism constrains progress towards strategic outcomes

**Description:** Council's work programme and levels of service are constrained due to conservative financial targets being set

**Risk priority scoring:**

	WEIGHTING	CURRENT RAW	PROPOSED RAW	CURRENT WEIGHT	PROPOSED WEIGHT
Potential for at-fault death	30%	1.00	1.50	0.30	0.45
Potential for financial disaster	25%	1.00	3.50	0.30	0.85
Threat to LTP objectives	20%	4.00	3.00	0.80	0.60
Level of influence over drivers or outcomes	15%	5.00	3.00	0.80	0.45
Immediate impact of treatment or control	10%	5.00	2.00	0.50	0.20
<b>SCORE</b>		16.00	13.00	2.60	2.55



**Risk 8:** Difficulty retaining or recruiting staff affects service levels

**Description:** Lack of accredited, specialised and experienced staff available across multiple industries locally, regionally and nationally

**Risk priority scoring:**

	WEIGHTING	CURRENT RAW	PROPOSED RAW	CURRENT WEIGHT	PROPOSED WEIGHT
Potential for at-fault death	30%	1.00	2.00	0.30	0.60
Potential for financial disaster	25%	1.00	2.50	0.30	0.60
Threat to LTP objectives	20%	4.00	3.00	0.80	0.60
Level of influence over drivers or outcomes	15%	3.00	2.50	0.50	0.35
Immediate impact of treatment or control	10%	3.00	2.50	0.30	0.25
<b>SCORE</b>		12.00	12.50	2.10	2.40



**Risk 9:** Over-commitment leads to inability to deliver agreed work programme

**Description:** Incomplete delivery of LTP programme endangers trust and confidence

**Risk priority scoring:**

	WEIGHTING	CURRENT RAW	PROPOSED RAW	CURRENT WEIGHT	PROPOSED WEIGHT
Potential for at-fault death	30%	1.0	2.00	0.30	0.60
Potential for financial disaster	25%	1.0	2.00	0.30	0.50
Threat to LTP objectives	20%	5.0	3.50	1.00	0.70
Level of influence over drivers or outcomes	15%	5.0	2.00	0.80	0.30
Immediate impact of treatment or control	10%	4.0	2.00	0.40	0.20
<b>SCORE</b>		16.00	11.50	2.70	2.30





**Risk 10:** Growth and demand dependent model makes it hard to fund new infrastructure

**Description:** Inability to access funding, despite increasing need, due to lack of eligibility

**Risk priority scoring:**

	WEIGHTING	CURRENT RAW	PROPOSED RAW	CURRENT WEIGHT	PROPOSED WEIGHT
Potential for at-fault death	30%	1.00	2.00	0.30	0.60
Potential for financial disaster	25%	2.00	2.00	0.50	0.50
Threat to LTP objectives	20%	4.00	2.00	0.80	0.40
Level of influence over drivers or outcomes	15%	2.00	2.00	0.30	0.30
Immediate impact of treatment or control	10%	1.00	2.00	0.10	0.20
<b>SCORE</b>		10.00	10.00	2.00	2.00



**Risk 11:** Absence of key people with organisational knowledge impacts business continuity

**Description:** Council is unable to maintain levels of service due to uncaptured knowledge

**Risk priority scoring:**

	WEIGHTING	CURRENT RAW	PROPOSED RAW	CURRENT WEIGHT	PROPOSED WEIGHT
Potential for at-fault death	30%	1.00	1.00	0.30	0.30
Potential for financial disaster	25%	1.00	1.00	0.30	0.30
Threat to LTP objectives	20%	3.00	3.00	0.60	0.60
Level of influence over drivers or outcomes	15%	5.00	2.00	0.80	0.30
Immediate impact of treatment or control	10%	4.00	2.00	0.40	0.20
<b>SCORE</b>		14.00	9.00	2.30	1.70



**Risk 12:** Viability of small communities will be impacted by population decline

**Description:** Impacts on affordability, sustainability and levels of service creates vulnerability with resultant decline in wellbeings

**Risk priority scoring:**

	WEIGHTING	CURRENT RAW	PROPOSED RAW	CURRENT WEIGHT	PROPOSED WEIGHT
Potential for at-fault death	30%	-	1.00	-	0.30
Potential for financial disaster	25%	-	1.00	-	0.25
Threat to LTP objectives	20%	-	2.00	-	0.40
Level of influence over drivers or outcomes	15%	-	2.00	-	0.30
Immediate impact of treatment or control	10%	-	2.00	-	0.20
<b>SCORE</b>		1.00	8.00	2.00	1.45

- No previous raw data available for comparison



## Risk management framework – risk matrices

CONSEQUENCE	INSIGNIFICANT	MINOR	MODERATE	MAJOR	CATASTROPHIC
<b>STRATEGIC</b>	No significant adverse public comment No impact on achievement of LTP objectives Key stakeholder relationships unaffected	Adverse comment in local or social media Letter to CEO, complaints to Councillors May slow achievement of LTP objectives Minor impact on key stakeholder relationships	National media coverage Will impact achievement of one or more LTP objectives Negative impact on key stakeholder relationships	National media coverage 2-3 days Will significantly impact the achievement of multiple LTP objectives Significant impact on multiple key stakeholder relationships	Coverage in national media 3+ days Commission of Inquiry/Parliamentary questions Stakeholder relations irreparably damaged Cannot deliver on most LTP objectives
<b>OPERATIONAL</b>	No loss of operational capability Minimal changes to service level Minimal loss of internal capacity	Loss of operational capability in some areas Some disruption to service levels Internal capacity lost for up to 1 week	Serious loss of operational capability for over 6 weeks and/or Disruption to service levels for 4-6 weeks Loss of internal capacity 1-3 weeks	Serious loss of operational of capability for over 8 weeks and major disruption to service levels and/or Loss of internal capacity 4-6 weeks	Serious loss of operational capability for 3-4 months and serious disruption to service levels and Loss of internal capacity for more than 6 weeks
<b>FINANCIAL</b>	No impact on financial targets	Up to 1% impact on financial targets	Up to 5% impact on financial targets	Up to 10% impact on financial targets	More than 10% impact on financial targets
<b>HEALTH, SAFETY AND WELLBEING</b>	No Medical treatment required Issue noted, no action required	Minimal personal injury and/or sickness AND Less than 2 weeks incapacitation H&S issue noted by Worksafe	Personal injury and/or sickness with up to 3mths incapacitation OR H&S issue to court	Significant public health impact OR Personal injury and/or sickness with 3+ months incapacitation or long term disability OR	Permanent severe disability or loss of life OR H&S issue taken to court resulting in imprisonment OR

Risk management framework – risk matrices  
5/12/2019

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CONSEQUENCE	INSIGNIFICANT	MINOR	MODERATE	MAJOR	CATASTROPHIC
				H&S issue to court and fine imposed	Widespread community sickness
<b>SOCIAL, CULTURAL, ENVIRONMENTAL</b>	No significant community Impact	Single community affected	Multiple communities affected	Many communities affected	Most or all communities
	Localised short-term reversible environmental, economic or social impact	Localised short-term reversible environmental, economic or social damage	Localised medium term (1 month +) reversible damage or disruption (environmental, economic, social or cultural)	Localised or widespread long term (3-6m) reversible damage or disruption (environmental, economic, social or cultural)	OR Extensive or irreversible damage or disruption (environmental, economic, social or cultural)
<b>REGULATORY AND COMPLIANCE</b>	Fine/ liability less than \$10K	Fine/ liability \$10 - \$100K	Fine/ liability \$100 - \$250K	Fine/ liability \$250K - \$1M	Fine/ liability \$1M+



LIKELIHOOD	
<b>HIGHLY LIKELY</b>	Risk event is expected to occur in most circumstances; or 90% chance within the next 12 months; or 18 out of every 20 years
<b>LIKELY</b>	Risk event will probably occur in most circumstances; or 55% chance within the next 12 months; or 11 out of every 20 years
<b>POSSIBLE</b>	Risk event should occur at some time; or 25% chance within the next 12 months; or 5 out of every 20 years
<b>UNLIKELY</b>	Risk event could occur at some time; or 10% chance within next 12 months; or 1 out of every 10 years
<b>RARE</b>	Risk event may occur only in exceptional circumstances Up to 4% chance within next 12 months Once in 25 years

LIKELIHOOD	CONSEQUENCE				
	Insignificant	Minor	Moderate	Major	Catastrophic
<b>HIGHLY LIKELY</b>	Low	Medium	High	Very High	Very High
<b>LIKELY</b>	Low	Medium	High	Very High	Very High
<b>POSSIBLE</b>	Low	Medium	Medium	High	Very High
<b>UNLIKELY</b>	Low	Low	Medium	Medium	High
<b>RARE</b>	Low	Low	Low	Medium	Medium

## New Zealand Transport Agency investment audit report for the period 2017/2018 to 2019/2020

Record No: R/20/6/14112

Author: Hartley Hare, Strategic Manager Transport

Approved by: Matt Russell, Group Manager Services and Assets

☐ Decision

☐ Recommendation

☒ Information

### Summary of report

- 1 As part of the New Zealand Transport Authority (NZTA) requirement an investment audit is undertaken every three years. This is to ensure that the investment in Council's land transport programme is being well managed and delivering value for money.
- 2 The audit covers five key areas:
  - Previous audit issues
  - Financial processes
  - Procurement procedures
  - Contract management
  - Professional services
- 3 Attached is the NZTA audit report for the procedural audit of Southland district Council (attachment A) issued on 11 May 2020.
- 4 There were no previous audit issues to be covered by the audit and three areas (financial process, procurement processes and contract management) were found to be effective. Professional services have been identified as some improvement needed. The assessment rating definitions can be found on page 4 of the NZTA report (attachment A).
- 5 NZTA have identified one recommendation for professional services. This is to ensure council is using an appropriate charge out rate for internal staff and charging sufficient hours. The review of charge out rates will be completed by 30 June 2021 for implementation from 1 July 2021.

### Recommendation

**That the Finance and Assurance Committee:**

- a) **Receives the report titled "New Zealand Transport Agency investment audit report for the period 2017/2018 to 2019/2020" dated 16 June 2020.**

### Attachments

- A NZTA investment audit 2020 [↓](#)



## INVESTMENT AUDIT REPORT

### Procedural Audit of Southland District Council

#### Monitoring Investment Performance

Report of the investment audit carried out under Section 95(1)(e)(ii) of the Land Transport Management Act 2003.

TONY PINN

11 MAY 2020

FINAL

New Zealand Government



Audit: Southland District Council

Approved Organisation (AO):	Southland District Council
Waka Kotahi NZ Transport Agency Investment (2018 – 2021 NLTP):	\$ \$44,808,300 (budgeted programme value)
Date of Investment Audit:	17th – 19th February 2020
Auditor(s):	Tony Pinn
Report No:	RATPI-1973

**AUTHORITY SIGNATURES**

Prepared by:



Tony Pinn, Senior Investment Auditor

Approved by:



Yuliya Gultekin, Practice Manager Audit &amp; Assurance

19/05/2020

Date

**DISCLAIMER**

WHILE EVERY EFFORT HAS BEEN MADE TO ENSURE THE ACCURACY OF THIS REPORT, THE FINDINGS, OPINIONS, AND RECOMMENDATIONS ARE BASED ON AN EXAMINATION OF A SAMPLE ONLY AND MAY NOT ADDRESS ALL ISSUES EXISTING AT THE TIME OF THE AUDIT. THE REPORT IS MADE AVAILABLE STRICTLY ON THE BASIS THAT ANYONE RELYING ON IT DOES SO AT THEIR OWN RISK, THEREFORE READERS ARE ADVISED TO SEEK ADVICE ON SPECIFIC CONTENT.

Audit: Southland District Council

## EXECUTIVE SUMMARY

The Land Transport Disbursement Account is correctly established in Council's general ledger and claims for funding assistance were verified correct.

Waka Kotahi funds Council to maintain two special purpose roads at 100% financial assistance rate and this was clearly separated within Council's land transport disbursement account.

Overall sound financial management systems are in place, but Council should consider allocating a greater financial resource to the transport activity to ensure that all eligible expenditure is claimed. Council also needs to review its in-house professional services costs to ensure they accurately reflect time charged to this activity.

All contracts sampled were consistent with Council's Procurement Strategy and met the Waka Kotahi's procurement procedure requirements.

Council has three conditions of approval registered in Transport Investment Online (TIO) two which now appear outdated. We have asked Waka Kotahi's Investment Advisor to investigate and close out any conditions which have been met.

## AUDIT RATING ASSESSMENT

Effective		Rating Assessment*
1	Previous Audit Issues	N/A
2	Financial Processes	Effective
3	Procurement Procedures	Effective
4	Contract Management	Effective
5	Professional Services	Some Improvement Needed
Overall Rating		Effective

\* Please see Introduction for Rating Assessment Classification Definitions

Before being finalised this report was referred to Southland District Council for comment. Its responses are included in the body of the report.

## RECOMMENDATION

The table below captures the audit recommendations. Agreed dates are provided for the implementation of recommendations by the approved organisation.

We recommend that Southland District Council:		Implementation Date
R5.1	Reviews its financial arrangements to ensure the charge out rates and allocated hours fairly reflect the costs being attributed to the professional services business unit.	30 June 2021

Audit: Southland District Council

## 1.0 INTRODUCTION

### 1.1. Audit Objective

The objective of this audit is to provide assurance that the Waka Kotahi NZ Transport Agency's (hereafter Waka Kotahi) investment in Council's land transport programme is being well managed and delivering value for money. We also seek assurance that the Council is appropriately managing risk associated with the Waka Kotahi's investment. We recommend improvements where appropriate.

### 1.2. Assessment Ratings Definitions

	Effective	Some Improvement Needed	Significant Improvement Needed	Unsatisfactory
<b>Investment management</b>	Effective systems, processes and management practices used.	Acceptable systems, processes and management practices but opportunities for improvement.	Systems, processes and management practices require improvement.	Inadequate systems, processes and management practices.
<b>Compliance</b>	Waka Kotahi and legislative requirements met.	Some omissions with Waka Kotahi requirements. No known breaches of legislative requirements.	Significant breaches of Waka Kotahi and/or legislative requirements.	Multiple and/or serious breaches of Waka Kotahi or legislative requirements.
<b>Findings/ deficiencies</b>	Opportunities for improvement may be identified for consideration.	Error and omission issues identified which need to be addressed.	Issues and/or breaches must be addressed, or on-going Waka Kotahi funding may be at risk.	Systemic and/or serious issues must be urgently addressed, or on-going Waka Kotahi funding will be at risk.

Audit: Southland District Council

## 2.0 ASSESSMENT FINDINGS

Our findings relating to each subject area are presented in the tables below. Where necessary, we have included recommendations and/or suggestions.

### 1. Previous Audit Issues

The previous audit in July 2017 made three recommendations relating to updating Council's Procurement Strategy and the inclusion of a late tenders policy in its tender documents. These recommendations have all been addressed.

Southland District Council's comment
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### 2. Financial Processes

Effective

Funding claims for all two years from 1 July 2017 to 30 June 2019 were successfully reconciled to Council's general ledger. There were good audit trails linking land transport activity expenditure and the general ledger.

A review sample of expenditure transactions for the 2018/19 financial year confirmed they had been correctly coded to the land transport disbursement account. We noted contractors monthly progress payments were often claimed in the following month due to tight cut off times for submitting claims. We suggest Council considers accruing expenditure to recognise costs in the accounting period in which they were incurred.

Southland District Council maintains a portion of the Chaslands Highway and Lower Hollyford Road as special purpose roads funded by Waka Kotahi at a financial assistance rate of 100%. There was a clear separation of this activity within Council's land transport disbursement account. A sample of invoices coded to this activity was included in transaction testing. All transactions were coded appropriately and eligible for financial assistance.

Bonds in lieu of retentions are predominantly used for physical works contracts and there were no transport related retentions being held in this account at the time of the audit.

Waka Kotahi's funding represents approximately 20% of Council's operating revenues. Whilst good financial management systems are in place, we suggest Council considers allocating a dedicated financial resource to Transport to ensure that by all eligible expenditure is captured and funding assistance is maximised.

Suggestions	<p>S2.1 That Council considers accruing expenditure to recognise costs in the accounting period in which they were incurred.</p> <p>S2.2 That Council considers allocating a dedicated financial resource to the Transport activity.</p>
Southland District Council's comment	<p>S2.1 Since the audit this review has taken place and Council are now accruing expenditures.</p> <p>S2.2 Council currently has half an FTE dedicated to this role and will ensure that this resource continues to be committed .</p>

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3. Procurement Procedures	Effective
<p>Council has an endorsed Procurement Strategy in place (dated June 2019).</p> <p>Six physical works contracts and one professional services contract were reviewed for compliance with approved procurement procedures (refer table in Appendix "C" for contracts reviewed).</p> <p>All contracts reviewed were consistent with Council's Procurement Strategy and complied with Waka Kotahi's procurement requirements.</p>	
Southland District Council's comment	This is positive affirmation of focus to consistently comply with Council's and NZTA's procurements requirements.

\* \* \*

4. Contract Management	Effective
<p>The majority of Council's roading related activities are provided through the three alliance contracts which include all maintenance and operations work across the network. Contract management is primarily provided in-house as part of the alliance contract arrangements.</p> <p><u>Alliance Auditing</u></p> <p>An independent financial audit of alliance charges is also carried out annually on a rolling programme covering the three alliance contracts. We selected the latest audit report (June 2019) which covered the Waimea Alliance. The audit concluded overall:</p> <p><i>"The financial aspects of the Waimea Alliance are working satisfactorily. While there was one moderate size error (underclaim of truck charges), the systems and controls appear to be adequate."</i></p> <p><u>Road Safety Audits</u></p> <p>We have confirmed that Council has a good understanding of the requirement for road safety audits and these are considered for all non-maintenance work. We have also confirmed from the selected sample (Haldane to Curio Bay Improvements – Detailed Design) that all decisions were well documented, and the issues raised were closed out.</p> <p><u>Contract Files</u></p> <p>We found some tender evaluation reports did not include the price quality spreadsheet calculations and some reports were unsigned by the tender evaluation team (TET) members. We could not determine at the time of the audit whether the final versions were provided, but we remind Council that the key contract documentation must be complete and available for audit.</p> <p><u>Conditions of Approval</u></p> <p>Funding that is approved subject to special conditions is recorded in TIO. There were three outstanding conditions of approval recorded in Transport Investment Online (TIO) for Council at the time of the audit.</p> <p>Monitoring the status of conditions by Waka Kotahi is necessary to ensure funding is not released prior to sign-off if the conditions have not been met.</p> <p>Discussions with Council staff suggest two of the outstanding conditions are no longer valid. We have asked the regional Waka Kotahi Investment Advisor to investigate and close these out where appropriate.</p>	

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Southland District Council's comment	<p>While no specific suggestion have been made Council notes the need to ensure all documents are available for audit including where external service providers are utilised.</p> <p>The outstanding NZTA funding condition relates to a live project it is noted that condition associated with the pre-construction and construction can now be closed out due to the project stage.</p>
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5. Professional Services		Some Improvement Needed
<p>Council's professional services are primarily provided through an in-house business unit. The financial management structure is correctly set up and charge out rates were within acceptable levels.</p> <p>We did note, however, that the cost recovery multiplier at 1.5 appeared to be very low compared to Council's peer group.</p> <p>Waka Kotahi now expects business units to break-even, but the unit has returned a small profit over the last two years. Without breaking down costs in detail, it was difficult to pinpoint the cause of these anomalies.</p> <p>We recommend Council reviews its financial arrangements to ensure the charge out rates and allocated hours fairly reflect the costs being attributed to the professional services business unit (PSBU). As discussed, the auditor is willing to assist Council with this if required.</p>		
Recommendations	R5.1 We recommend that Council reviews its financial arrangements to ensure the charge out rates and allocated hours fairly reflect the costs being attributed to the professional services business unit.	
Southland District Council's comment	Council will review cost allocation which make up the charge out rates and allocations and notes the offer of assistance from the auditor. This review will be completed by 30 June 2021.	

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## 3.0 APPENDICES

### APPENDIX A

## Council Feedback

Council appreciates NZTA's audit with the associated recommendation and suggestion as these provide for good learning and continues improvement opportunities.

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**APPENDIX B**

**Audit Programme**

1. Previous audit – July 2017
2. Land Transport Disbursement Account
3. Final claims for 2017/18 and 2018/19
4. Transactions (accounts payable)
5. Retentions Account
6. Reconciliation between ledgers supporting final claim and the audited financial statements
7. Procurement Procedures
8. Contract Variations
9. Contract Management and Administration
10. Professional Services
11. Multi-Party Agreements (if applicable)
12. Transport Investment On-line (TIO) Reporting
13. Other issues that may be raised during the audit
14. Close-out meeting

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## APPENDIX C

## Contracts Audited

Contract Number	Tenders Received	Date Let	Description	Contractor		
			<b>Physical Works</b>			
17/02	2	April 17	Roading Network Maintenance Contract Central Alliance	Southroads	Estimate Let Price Final Cost	\$12.46M Negotiated Unit Rates Ongoing
17/31	3	Sept 17	Pavement Marking Western Area	Downer	Estimate Let Price Final Cost	\$1,545,250 \$1,108,314 Ongoing
17/33	2	Aug 17	Resurfacing Western Area	Downer	Estimate Let Price Final Cost	\$7,720,175 \$8,504,700 Ongoing
17/45	1	Dec 17	Southland Street Light LED Upgrade	Network Electrical Servicing	Estimate Let Price Final Cost	\$418,000 \$576,233 Ongoing
18/06	1	May 18	Chaslands Highway Slip Remediation	Fulton Hogan	Estimate Let Price Final Cost	\$976,000 \$1,754,767 Ongoing
19/14	4	Aug 19	Eastern Southland Pavement Rehabilitation	The Roding Company	Estimate Let Price Final Cost	\$1,356,000 \$1,230,000 Ongoing
			<b>Professional Services</b>			
19/14	3	Aug 17	Transport Structural Services	Stantec	Estimate Let Price Final Cost	\$840,000 \$765,000 Ongoing

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## Monthly Financial Report - April 2020

**Record No:** R/20/6/12832

**Author:** Dee Patel, Project Accountant

**Approved by:** Anne Robson, Chief Financial Officer

☐ Decision

☐ Recommendation

☒ Information

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### Summary

1. The purpose of this report is to provide Council with an overview of the financial results to date by the nine activity groups of Council, as well as the financial position, and the statement of cash flows.
2. This report summaries Council financial results for the ten months to 30 April 2020.

### Recommendation

**That the Finance and Assurance Committee:**

- a) **Receives the report titled “Monthly Financial Report - April 2020” dated 16 June 2020.**

### Attachments

- A Monthly Financial Report - April 2020 [↓](#)



## Monthly Financial Report

April 2020

Southland District Council  
Te Rohe Pōtae o Murihiku

PO Box 903  
15 Forth Street  
Invercargill 9840

0800 732 732  
@ sdc@southlanddc.govt.nz  
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Council monthly summary .....	5
Council summary report .....	10
Statement of comprehensive income.....	11
Statement of financial position.....	12
Statement of cash flows .....	13

## Executive summary

1. This monthly financial report summarises Council's financial results for the ten months to 30 April 2020.
2. The monthly financial report summary consolidates the business units within each of Council's groups of activities.
3. The monthly financial report includes:
  - year to date (YTD) actuals, which are the actual costs incurred
  - year to date (YTD) projection, which is based on the full year projection and is a combination of the Annual Plan and carry forwards, and forecasting from October and February
  - year to date (YTD) budget, which is based on the full year Annual Plan budget with adjustments for phasing of budgets
  - full year (FY) budget, which is the Annual Plan budget figures
  - full year (FY) projection, which is the Annual Plan budget figures plus the carry forward, and forecast adjustments.
4. Phasing of budgets occurs in the first two 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.
5. Where phasing of budgets has not occurred, one twelfth of annual budgeted cost is used to calculate the monthly budget.
6. Southland District Council summary reports use a materiality threshold to measure, monitor and report on financial performance and position of Council. The materiality threshold adopted by Council, together with the annual budget for 2019/2020 is variances more or less than 10% of the original adopted budget and greater than \$10,000 in value.
7. Report contents:
  - A. Council monthly summary
  - B. Council summary report - income and expenditure and commentary
  - C. statement of comprehensive income
  - D. statement of financial position and movement commentary
  - E. statement of cash flows.

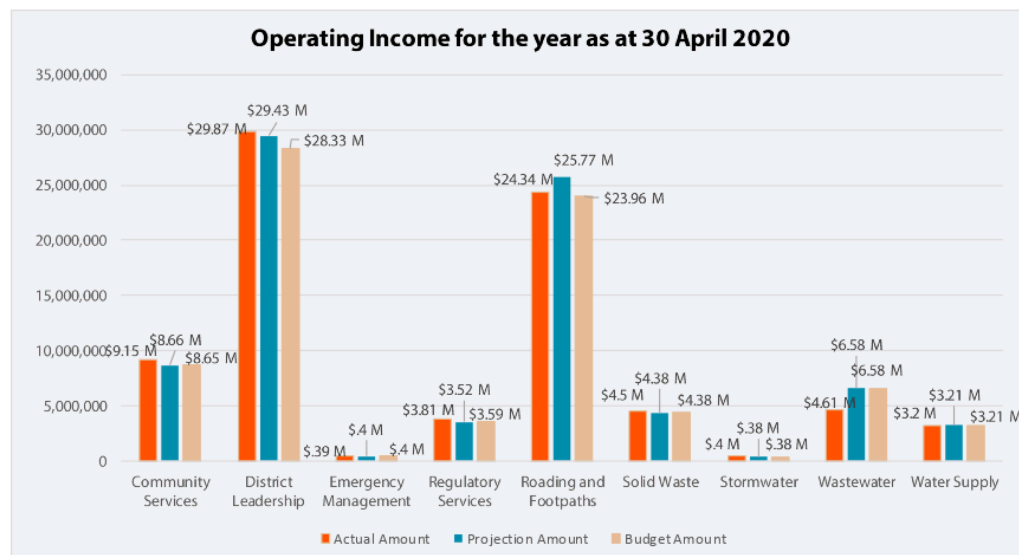
## Abbreviation Explanation

Abbreviation	Description
AP	Annual Plan
CAPEX	Capital Expenditure
ELT	Executive Leadership Team
FYB	Full Year Budget
GDC	Gore District Council
GIS	Geographic Information System
GMSE	GeoMedia Smart Client
GST	Goods and Services Tax
ICC	Invercargill City Council
LED	Light Emitting Diode
LTP	Long Term Plan
ME	Month End
NZTA	New Zealand Transport Authority
SDC	Southland District Council
SIESA	Stewart Island Electricity Supply Authority
YE	Year End
YTD	Year To Date
YTD Variance	Comparison of actual results compared to YTD budget
\$M	Millions of dollars

## Council monthly summary

### Income

Operating income is \$2.05M (2%) under projection YTD (\$80.3M actual vs \$82.3M projected).



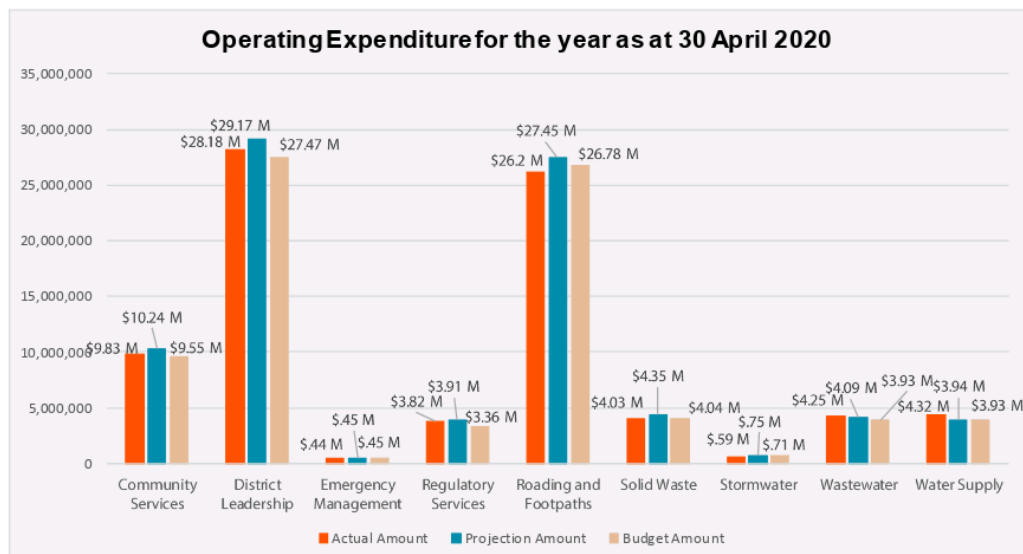
Operating income is under projection due to two main activities being roading and footpaths and the wastewater activities. Roding and footpaths are \$1,425,832 (6%) under projection this is due to the timing of works (particularly capital). Transit recoveries is also under projection by \$84K due to the timing of invoices generated for work completed.

Wastewater is \$1,965,008 (30%) under projection. This is due to not receiving the second instalment of TIF funding in support of the Te Anau wastewater upgrade which was budgeted for during April, we are now expecting to receive this in June. We are entitle to lodge a claim once we have completed the pipeline.



## Expenditure

Operating expenditure is \$2.7M (3%) under projection for the YTD (\$81.6M actual vs \$84M projection).



The majority of the \$2.7M underspend comes from roding and footpaths, community services and district leadership.

- **salaries** overall are under projection by \$687,493 (8%). A number of factors play into this figure but it is largely around timing. When we recruit there is often a gap between an employee exiting and a new person starting which can result in an underspend in budgeted wages. Additionally our managers take the opportunity to review position requirements when a vacancy occurs to ensure that we are resourcing appropriately. Generally our recruitment process takes around 10 weeks from the time approval to recruit is given to the person starting for the majority of roles. Salaries being under projected is also impacted by the undertaking of a review of our water and waste services area to address upcoming changes in the regulatory and national policy environment. Whilst we have continued to recruit over the pandemic our ability to “on-board” has been restricted which has meant that a number of these appointments will not commence until June.
- **Roding and footpaths** are \$1,255,465 (5%) under projection spend due to the following:
  - Roding – District wide administration, is currently \$280 thousand under the projected spend. The majority of this relates to a higher level of staff time that has been recovered from NZTA and is included as a negative expenses.
  - Roding – District wide
    - General maintenance is \$367 thousand under projection spend largely due to reduced activity as a result of Covid-19. Additional resource is being used to make up for time lost during lockdown.
    - Emergency reinstatement is \$409,411 under projected spend. This is only used for significant events which is greater than 1 in 10 year event. The event at the start of February is estimated to cost around \$3 million which will be spent over this year and next year. We have projected to spend \$1.8 million of this in the

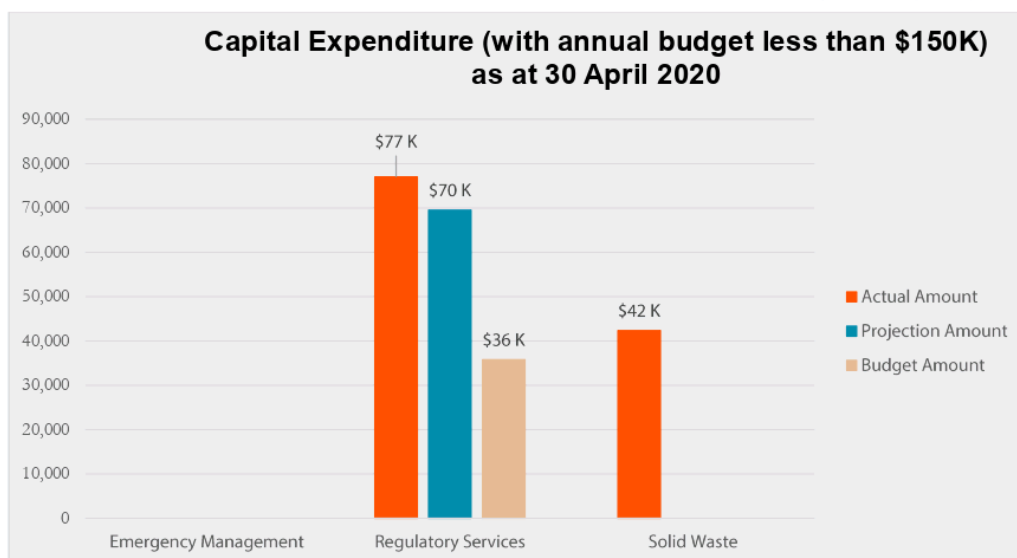
- current year although we may not spend the entirety of it due to the lost time as a result of the Covid-19 pandemic.
- Network and Asset Management is \$280K under project spend mainly related to the structures professional services and timing of posted bridge inspection.
  - Environmental maintenance continues to remain ahead of budget (\$84K) due to higher expenditure at the start of the year from adverse weather condition.
- **Community Services** is \$414,678 (4%) under projected spend.
    - **Cemeteries** are \$98,418 (33%) under projection, while most budgets are under spent the largest items are interment costs at \$23,500, which indicates less interments than budgeted to date, however operational maintenance budgets are also underspent. Also included in this underspend are \$11,500 of new beams which are budgeted under operational expenditure but have been incurred under capital expenditure.
    - **Library Services** are \$146,911 (10%) under projection. Due to the Covid-19 Pandemic we had suspended purchasing for the libraries during April, this included holding back over \$30,000 of book orders and a furniture renewal of our Brandon Street site. These suspensions combined with no regular stationary, travel and day-to-day operational costs has led to library services being under projection.
    - **SIESA** is \$140,900 (9%) under projection. Decreases are attributed to management, consultants, fuel and depreciation accounts. We have identified that the monthly invoices from our contractor is arriving later than our financial cut-off date. As such one month of management fees are missing. A monthly accrual will occur going forward to ensure this is not an ongoing issue.
    - **Te Anau Airports** \$67,665 (17%) under projection. This is mainly due to non-critical activities associated with CAA compliance being deferred in view of business operations post Covid-19.

### Capital expenditure (CAPEX)

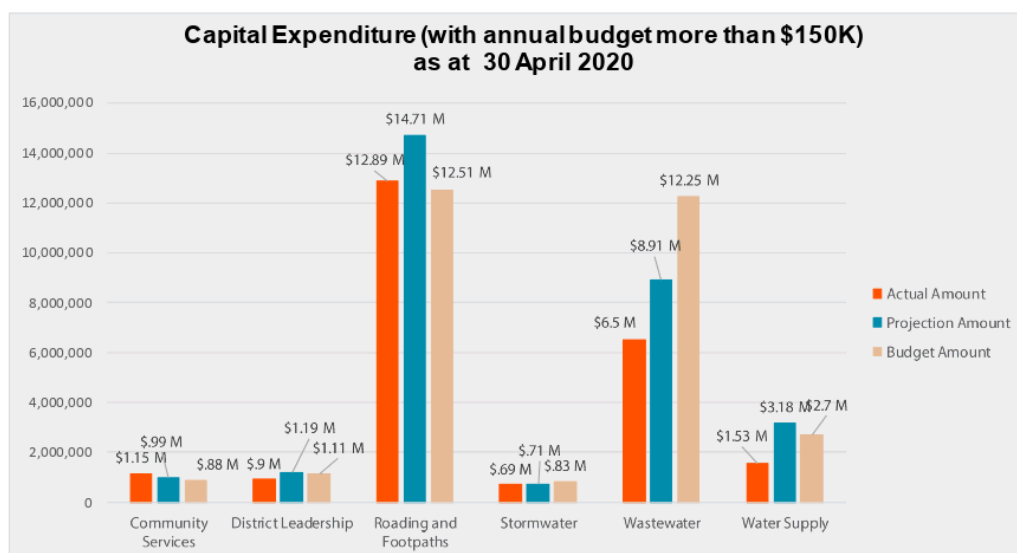
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Capital expenditure is \$7.6M (25%) under projection year to date (\$22.2M actual vs \$29.8M projection).

Monthly Financial Report – April 2020



**Solid waste** is \$42,346 (100%) over projection due to the additional wheelie bins that have been supplied this year.



**Roading and footpaths** are \$1,823,440 (12%) under YTD projection.

- **roading - district wide** is \$1,267,308 (9%) under projection with sealed road levels of service \$200K under projection due to the timing of finalising land legislation of the Alternative Coast Route Project. Invoices are now starting to come in from land owners for the property purchases will start to be reflected from May. Traffic services renewal is \$307K under projected spend, this is largely due to pavement marking which has been impacted by the February floods and again by

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Covid-19. Provided weather conditions are suitable all attempts will be made to make up for lost time before year end. Minor Improvements is \$690K under projected spend due to delays with the seal widening project along Fortrose Otara. This has now been approved with a revised scope and will progress but the bulk of the cost are now likely to be incurred during 2020/21.

→ **streetworks** is \$383,410 (48%) under projection which is predominantly made up of three footpath projects. With the move to level 2 contracts have now been awarded for these works.

**Wastewater** is \$2,411,049 (27%) under YTD projection. This is largely due to the delay in construction associated with the Te Anau wastewater project consenting and the regional desludging work. Due to the Covid-19 lockdown it is unlikely that the desludging work will be completed in its entirety this financial year. The pipeline for the Te Anau wastewater project should be completed in the current year.

**Water supply** is \$1,645,039 (52%) under projection. The Otautau watermain will be completed this financial year. Quintin Drive watermain renewal is due to commence on 22 June 2020 and will continue through into the 20/21 financial year. The Lumsden watermain project has not yet recommenced as we await an updated landowner agreement which is expected in June.

## Council summary report

Southland District Council Financial Summary  
for the period ending 30 April 2020

Operating Income									
	YTD					FYB			
	Actual Amount	Projection Amount	Budget Amount	Variance	Var %	Projection Amount	Budget Amount	Variance	Var %
Community Services	9,148,630	8,660,306	8,906,043	488,324	6%	11,328,074	11,649,509	321,435	3%
District Leadership	29,870,148	29,434,202	28,328,689	435,946	1%	34,639,374	33,357,610	(1,301,764)	(4%)
Emergency Management	389,727	401,524	401,524	(11,797)	(3%)	481,829	481,829	0	0%
Regulatory Services	3,806,838	3,522,380	3,439,419	284,458	8%	4,354,889	4,252,321	(102,568)	(2%)
Roading and Footpaths	24,342,109	25,767,941	24,018,784	(1,425,832)	(6%)	31,266,155	29,143,773	(2,122,382)	(7%)
Solid Waste	4,504,005	4,375,350	4,375,350	128,655	3%	5,242,541	5,242,541	0	0%
Stormwater	400,061	377,616	377,615	22,445	6%	508,193	508,192	(0)	(0%)
Wastewater	4,614,193	6,579,201	6,579,201	(1,965,008)	(30%)	7,642,920	7,642,920	0	0%
Water Supply	3,200,194	3,212,418	3,208,287	(12,224)	(0%)	3,888,463	3,883,463	(5,000)	(0%)
<b>Total</b>	<b>\$80,275,905</b>	<b>\$82,330,937</b>	<b>\$79,634,913</b>	<b>(2,055,032)</b>	<b>(2%)</b>	<b>\$99,372,438</b>	<b>\$96,162,158</b>	<b>(3,210,279)</b>	<b>(3%)</b>
Operating Expenditure									
	YTD					FYB			
	Actual Amount	Projection Amount	Budget Amount	Variance	Var %	Projection Amount	Budget Amount	Variance	Var %
Community Services	9,825,059	10,239,737	9,837,713	(414,678)	(4%)	12,553,342	12,060,483	(492,859)	(4%)
District Leadership	28,176,917	29,171,029	27,635,913	(994,112)	(3%)	36,974,935	35,029,140	(1,945,795)	(5%)
Emergency Management	443,100	454,477	454,477	(11,377)	(3%)	481,829	481,829	0	0%
Regulatory Services	3,821,727	3,910,021	3,045,208	(88,295)	(2%)	5,604,795	4,365,134	(1,239,661)	(22%)
Roading and Footpaths	26,198,493	27,453,959	26,978,506	(1,255,465)	(5%)	33,046,410	32,474,106	(572,304)	(2%)
Solid Waste	4,031,292	4,352,713	4,035,184	(321,422)	(7%)	5,222,015	4,841,070	(380,945)	(7%)
Stormwater	590,445	745,791	712,270	(155,346)	(21%)	889,920	849,921	(39,999)	(4%)
Wastewater	4,248,239	4,093,522	3,931,014	154,717	4%	4,890,358	4,696,217	(194,141)	(4%)
Water Supply	4,322,337	3,942,465	3,932,030	379,872	10%	4,730,280	4,717,760	(12,520)	(0%)
<b>Total</b>	<b>\$81,657,609</b>	<b>\$84,363,714</b>	<b>\$80,562,314</b>	<b>(2,706,105)</b>	<b>(3%)</b>	<b>\$104,393,884</b>	<b>\$99,515,660</b>	<b>(4,878,224)</b>	<b>(5%)</b>
<b>Net Surplus/Deficit</b>	<b>(\$1,381,704)</b>	<b>(\$2,032,777)</b>	<b>(\$927,402)</b>	<b>651,074</b>	<b>6%</b>	<b>(\$5,021,446)</b>	<b>(\$3,353,501)</b>	<b>1,667,944</b>	<b>1%</b>

Capital Expenditure									
	YTD					FYB			
	Actual Amount	Projection Amount	Budget Amount	Variance	Var %	Projection Amount	Budget Amount	Variance	Var %
Community Services	1,154,884	994,740	1,440,326	160,145	16%	1,654,914	2,396,220	741,306	45%
District Leadership	899,673	1,186,944	382,536	(287,271)	(24%)	154,189	49,693	(104,496)	(68%)
Emergency Management	-	-	-	0	0%	-	-	0	0%
Regulatory Services	77,034	69,521	27,339	7,513	0%	337,861	132,861	(205,000)	(61%)
Roading and Footpaths	12,890,473	14,713,913	12,511,260	(1,823,440)	(12%)	17,576,293	14,945,146	(2,631,147)	(15%)
Solid Waste	42,346	-	-	42,346	-	-	-	0	-
Stormwater	686,805	705,027	828,037	(18,222)	(3%)	708,833	832,507	123,674	17%
Wastewater	6,498,620	8,909,670	12,079,313	(2,411,049)	(27%)	10,739,452	14,560,046	3,820,594	36%
Water Supply	1,532,150	3,177,189	2,714,640	(1,645,039)	(52%)	3,750,852	3,204,787	(546,065)	(15%)
<b>Total</b>	<b>\$23,781,985</b>	<b>\$29,757,003</b>	<b>\$29,983,451</b>	<b>(5,975,018)</b>	<b>(20%)</b>	<b>\$34,922,393</b>	<b>\$36,121,260</b>	<b>1,198,867</b>	<b>3%</b>

## Activities reporting under Groups listed:

COMMUNITY SERVICES	DISTRICT LEADERSHIP	REGULATORY SERVICES
Community Assistance	Representation and Advocacy	Building Control
Parks and Reserves	Community Development	Resource Management
Cemeteries	District Support	Animal Control
Community Facilities	Corporate Support	Environmental Health
Community Groups	Forestry	
Library Services		
Public Toilets		
Airports		
Electricity Supply		

## Statement of comprehensive income

Statement of Comprehensive Revenue and Expenses for the period ending 30 April 2020					
	YTD			FYB	
	Actual Amount	Projection Amount	Budget Amount	Projection Amount	Budget Amount
<b>Revenue</b>					
Rates Revenue	40,299,230	40,260,797	40,243,237	48,411,467	48,411,467
Other Revenue	8,197,511	7,840,128	7,516,443	8,372,470	8,372,470
Interest and Dividends	288,740	56,808	56,808	68,170	68,170
NZ Transport Agency Funding	11,416,393	12,863,048	11,058,315	13,575,038	13,129,323
Grants and Subsidies	2,737,254	4,071,027	3,321,027	4,264,406	4,170,975
Other gains/losses	232,256	66,369	38,969	(1,407,317)	(1,447,317)
Development and financial contributions	199,289	13,120	0	383,899	368,155
	<b>63,370,674</b>	<b>65,171,298</b>	<b>62,234,799</b>	<b>73,668,133</b>	<b>73,073,243</b>
<b>Expenditure</b>					
Employee Benefit Expense	11,651,943	12,492,911	11,864,054	13,387,725	13,387,725
Depreciation and Amortisation	19,325,554	19,319,361	19,319,361	23,183,233	23,183,233
Finance Costs	19,234	18,333	18,333	22,000	22,000
Other Council Expenditure	33,755,647	35,373,470	31,782,705	40,558,392	39,833,784
Balance Sheet	0	0	0	0	0
Internal Reconciliations	0	0	0	0	0
	<b>64,782,377</b>	<b>67,204,075</b>	<b>62,984,453</b>	<b>77,151,351</b>	<b>76,426,742</b>
<b>Total Comprehensive Income</b>	<b>(1,381,704)</b>	<b>(2,032,777)</b>	<b>(749,654)</b>	<b>(3,483,218)</b>	<b>(3,353,499)</b>

**Note:**

The revenue and expenditure in the comprehensive income statement does not reconcile to the total income and total expenditure reported in Council summary report on page 9 due to the elimination of the internal transactions. However, the net surplus/deficit (as per the Council summary report) matches the total comprehensive income (as per the statement of comprehensive income).

The presentation of the statement of comprehensive income aligns with Council's annual report. The annual report is based on national approved accounting standards. These standards require us to eliminate internal transactions. Council is also required to report by activities. A number of Council functions relate to a number of activities, eg finance. To share these costs, an internal transaction is generated between the finance business unit and the activity business units. Within the annual report, Council also prepare activity funding impact statements. These statements are prepared under the Financial Reporting and Prudence Regulations 2014. This regulation requires internal charges and overheads recovered be disclosed separately. The Council summary report is a summary of what these activity funding impact statements will disclose for income and expenditure at year end.

## Statement of financial position

Council's financial position as at 30 April 2020 is detailed below. The balance sheet below only includes Southland District Council and SIESA financials. This means that the balance sheet for 30 June 2019 differs from the published annual report which includes Venture Southland financials.

### SOUTHLAND DISTRICT COUNCIL STATEMENT OF FINANCIAL POSITION as at 30 April 2020

	Actual 30-Apr-20	Actual 30-Jun-19
<b>Equity</b>		
Retained Earnings	717,265,750	718,647,453
Asset Revaluation Reserves	822,120,037	822,120,037
Other Reserves	42,546,133	42,546,133
Share Revaluation	2,666,473	2,666,473
	<u>1,584,598,395</u>	<u>1,585,980,097</u>
<b>Represented by:</b>		
<b>Current Assets</b>		
Cash and Cash Equivalents	6,254,987	14,911,330
Trade and Other Receivables	12,135,476	11,123,195
Inventories	129,402	129,402
Other Financial Assets	1,321,489	1,508,271
Property, Plant and Equipment	-	-
	<u>19,841,355</u>	<u>27,672,199</u>
<b>Non-Current Assets</b>		
Property, Plant and Equipment	1,562,077,692	1,556,700,350
Intangible Assets	2,354,971	2,565,313
Forestry Assets	11,900,000	11,900,000
Internal Loans	29,931,173	31,315,988
Work in Progress	61,486	772,054
Investment in Associates	970,321	314,495
Other Financial Assets	302,238	302,608
	<u>1,607,597,881</u>	<u>1,603,870,809</u>
<b>TOTAL ASSETS</b>	<u>1,627,439,236</u>	<u>1,631,543,007</u>
<b>Current Liabilities</b>		
Trade and Other Payables	7,201,478	8,358,955
Contract Retentions and Deposits	561,379	451,905
Employee Benefit Liabilities	1,279,611	1,583,186
Development and Financial Contributions	2,127,038	2,112,712
Borrowings	1,700,000	1,700,000
Provisions	14,000	14,000
	<u>12,883,506</u>	<u>14,220,759</u>
<b>Non-Current Liabilities</b>		
Employment Benefit Liabilities	18,010	18,010
Provisions	8,152	8,152
Internal Loans - Liability	29,931,173	31,315,988
	<u>29,957,335</u>	<u>31,342,151</u>
<b>TOTAL LIABILITIES</b>	<u>42,840,841</u>	<u>45,562,909</u>
<b>NET ASSETS</b>	<u>1,584,598,395</u>	<u>1,585,980,097</u>



## Statement of cash flows

## Statement of Cashflows for the period ended April 2020

	2019/2020 YTD Actual
<b>Cash Flows from Operating Activities</b>	
Receipts from rates	36,420,250
Receipts from other revenue (including NZTA)	23,224,970
Cash receipts from Interest and Dividends	288,740
Payment to Suppliers	(34,307,948)
Payment to Employees	(11,955,519)
Interest Paid	(19,234)
GST General Ledger (net)	1,710,800
<b>Net Cash Inflow (Outflow) from Operating Activities</b>	<b>15,362,060</b>
<b>Cash Flows from Investing Activities</b>	
Receipts from sale of PPE	232,256
(Increase)/Decrease Other Financial Assets	(468,673)
Purchase of property, plant and equipment	(23,992,327)
Purchase of Forestry Assets	-
Purchase of Intangible Assets	210,342
<b>Net Cash Inflow (Outflow) from Investing Activities</b>	<b>(24,018,402)</b>
<b>Cash Flows from Financing Activities</b>	
Increase/(Decrease) Term Loans	-
Increase/(Decrease) Finance Leases	-
<b>Net Cash Inflow (Outflow) from Financing Activities</b>	<b>-</b>
Net Increase/(Decrease) in Cash and Cash Equivalents	<b>(8,656,342)</b>
Cash and Cash Equivalents at the beginning of the year	<b>14,911,330</b>
Cash and Cash Equivalents at the end of March	<b>6,254,988</b>



**Cash and cash equivalents and other financial assets**

1. At 30 April 2020, Council had \$5M invested in two term deposits with maturities as shown in the table below. Note: Council is received a lower interest rate of 1.22% for the term deposit invested in May.

SDC Investments - Term Deposits				
Bank	Amount	Interest Rate	Date Invested	Maturity Date
ANZ	\$ 2,000,000	1.65%	2-Mar-20	19-May-20
WPC	\$ 3,000,000	2.07%	28-Feb-20	19-May-20
<b>Total</b>	<b>\$ 5,000,000</b>			

2. At 30 April 2020, SIESA had \$1.57M invested in five term deposits as follows:

SIESA Investments - Term Deposits				
Bank	Amount	Interest Rate	Date Invested	Maturity Date
BNZ	\$ 370,000	2.66%	2-Mar-20	2-Sep-20
BNZ	\$ 200,000	2.06%	4-May-20	4-Nov-20
BNZ	\$ 350,000	2.81%	23-Jan-20	23-Jul-20
BNZ	\$ 350,000	2.44%	23-Apr-20	25-Jan-21
BNZ	\$ 300,000	3.23%	6-May-19	6-Jul-20
<b>Total</b>	<b>\$ 1,570,000</b>			

3. Funds on call at 30 April 2020:

Funds on Call				
	Amount	Bank	Account	Interest Rate
SDC	\$ 2,894,207	BNZ	Funds on Call	0.10%
	\$ 10,000	BNZ	Operating Bank Acc	1.00%
	\$ 532,558	BNZ	Restricted Funds Acc	2.90%
SIESA	\$ 139,264	BNZ	Funds on Call	2.90%

Council's Investment and Liability Policy states that Council can invest no more than \$10M with one bank. Investments and funds on call, comply with the SDC Investment Policy.



## Health and Safety Update

**Record No:** R/20/6/13331

**Author:** Janet Ellis, People and Capability Manager

**Approved by:** Steve Ruru, Chief Executive

☐ Decision

☐ Recommendation

☒ Information

### Purpose

- 1 To provide an update on health and safety related incidents and activity over the last quarter.

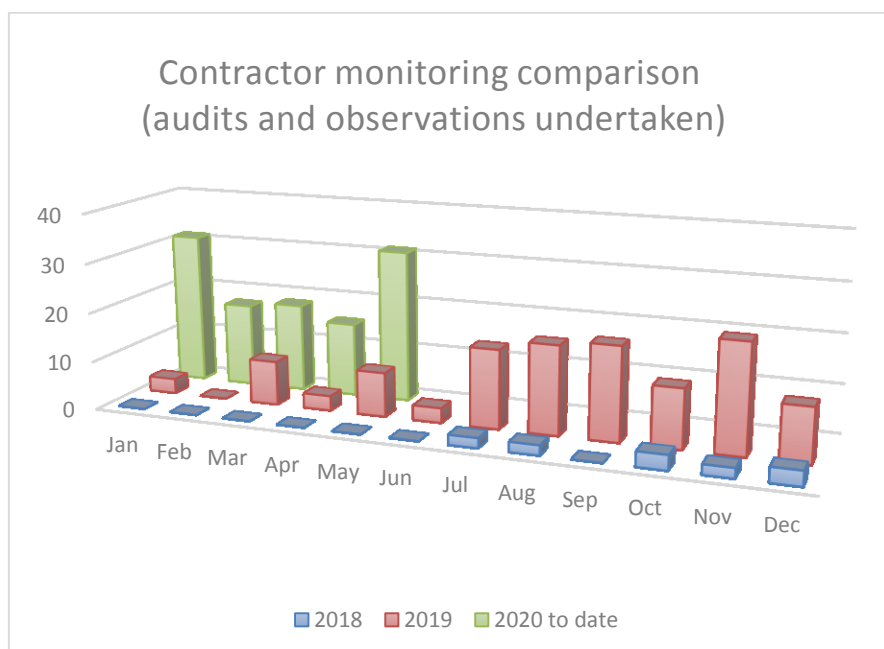
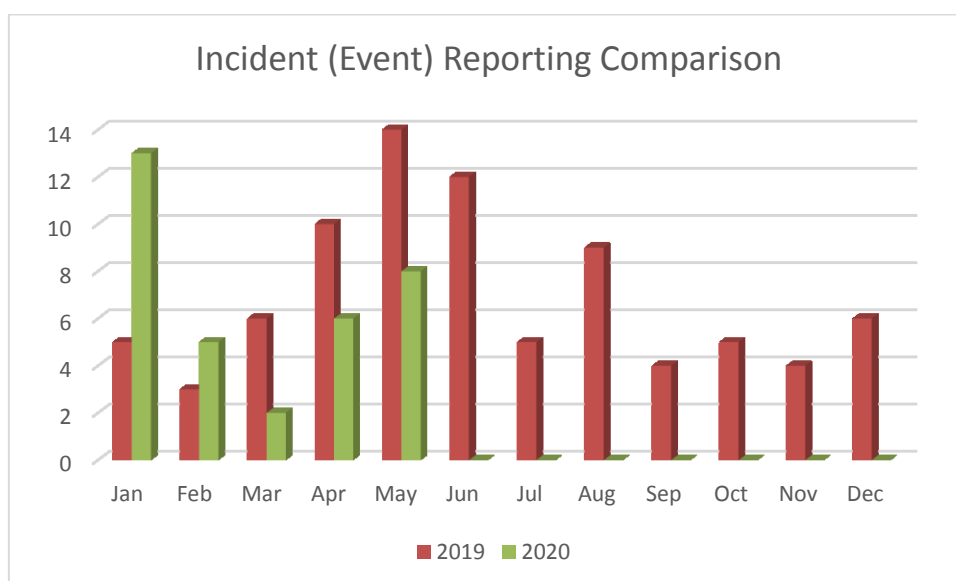
### Content

#### Incidents/Near Misses – Southland District Council

- 2 As part of the Health and Safety Plan for 2019/2020 we are ensuring that we have consistency of reporting on both lead and lag indicators.
- 3 Lagging indicators are typically “output” oriented, easy to measure but hard to improve or influence while leading indicators are typically input oriented, hard to measure and easy to influence.
- 4 Lead indicators include Near Misses, Audits and Inspections and progress against the Health and Safety Plan. Lag indicators include Medical Treatment Interventions (MTI), Incidents, Lost time due to injury, Worksafe notifications and Number of Incident Investigations completed.
- 5 A summary of these indicators for the year from 1 January 2020 to 31 May 2020 is below. In January there were two MTIs. These were a twisted knee that occurred on 24 December 2019 that was not reported until January 2020 and a cat bite that caused infection. In February there was one MTI, this involved an employee getting lacerations to her fingers that required stitches.
- 6 In addition please find below a summary of contractor monitoring comparison and the incident (event) reporting comparisons. It is pleasing to note an eighty two percent increase in contractor monitoring and recording since 2017.

## Summary of Indicators – 1 January 2020 to 31 May 2020

Date	Total Reported Events	EDI - Early Discomfort Event	NMI - Near Miss Event	MNI - Minor No Treatment Event	FAI - First Aid Event	MTI - Medical Treatment Injury Event	LTI - Lost Time Event	PDI - Property Damage Event	RSK - Risk Reports	Other (ie Medical Event/NWR)	Number of events investigated	Number of Corrective Actions set	Number of Corrective Actions achieved	LTI Free Days	Days Lost Time	ACC Claims	Safety/Site Observations received	Contractors Audited	Contractors requiring follow up
Jan-20	13	2	2	0	2	2	0	0	5	0	13	13	11	84	0	1	15	16	0
Feb-20	5	0	1	0	0	1	0	1	2	0	5	5	3	113	0	0	9	8	0
Mar-20	2	1	0	0	0	0	0	0	1	0	2	3	3	144	0	1	12	6	0
Apr-20	6	3	0	0	0	0	0	0	3	0	6	1	0	174	0	0	10	5	0
May-20	8	2	1	2	0	0	0	1	2	0	8	3	4	205	0	0	27	4	0
Jun-20																			
Jul-20																			
Aug-20																			
Sep-20																			
Oct-20																			
Nov-20																			
Dec-20																			
Total	34	8	4	2	2	3	0	2	13	0	34	25	21		0	2	73	39	0



### Other Health and Safety Related initiatives

- 7 There are many ways to keep current on health and safety matters, subscribing to the Worksafe updates is an easy way to remain up to date. The link is:  
<https://worksafe.govt.nz/home/subscriptions>
- 8 Health and safety training continues with staff completing the health and safety e-learning modules based on the health and safety procedures. All new staff are required to complete all the modules.
- 9 Safety observations and inspections have continued to increase with the new health and safety software providing a tailored app which is being piloted by the project delivery team. As detailed above there has been a significant increase in contractor monitoring and reporting since 2017. With the increase of monitoring there has been an increased number of corrective actions required.

- 10 Health and safety governance training is being scheduled for late 2020. All community boards have had a health and safety presentation/induction.
- 11 GPS (ERoad) installation has begun in vehicles and will happen in stages with groups of 10 at a time.
- 12 Panic alarm upgrades have begun with Invercargill and Winton completed to date.
- 13 The new health and safety system has been implemented and released to all areas of the business.
- 14 Council has continued to manage its response to the Covid-19 pandemic. From an organisational operations perspective all staff have continued to work from home where practical for the period of the alert level 4 and 3 lockdown. With the move to alert level 2 the majority of staff are now working back in the office and field. The executive leadership team continues to keep a very close watch on the impact to Southland District Council. The latest key information from the Ministry of Health (MOH) is distilled continually.
- 15 The new system was utilised during Covid-19 alert levels 4, 3 and 2 to support contractor and project management in regards to the risk of transmission and infection of Covid-19. All contractor Covid-19 risk management plans were processed through the permit to work module of the H&S system (the SHED) so as to easily identify and monitor the works being undertaken with this added risk factor during this time. 120 permits to work have been approved for project or contract continuation and restarts during alert levels 4, 3 and 2.
- 16 Our H&S system also continued to support employee self-check safety observations and pre-site visit checks during this time. The flexibility of the H&S application on smart phones and the online platform enabled transitions through the alert levels and SDC's health safety wellbeing response to be supported by the system - A system that has now been put through its paces and is delivering as expected, with all employees able to use this tool via app, platform or portal as required.
- 17 In late 2020, Southland District Council will use an external consultant to undertake a high level assessment and review of Council's approach to the management of health and safety. This will include a review of Council's governance framework, strategic plan and performance measures and targets. The review will also include a thin slice review of the health and safety management system targeting risk management, incident management, worker engagement, contractor management and injury management. Any opportunities identified as part of this gap analysis will be incorporated into the 2020/21 implementation plan.

## Critical Risks

- 18 At Southland District Council we currently use the bowtie method as a visual risk evaluation tool. This tool allows us to describe a risk and define our risk response actions.
- 19 This visual tools allows us to key an overview of risk management practices rather than replace existing processes or systems.
- 20 The bowtie critical risk update as of 31 May 2020 is attached. The update shows the visual comparison between 2018 and 2020. In addition it details the focus for 2020/21.

## Recommendation

### That the Finance and Assurance Committee:

- a) **Receives the report titled "Health and Safety Update" dated 11 June 2020.**

## Attachments

- A Bowtie critical risk update as of 31 May 2020 [📄](#)



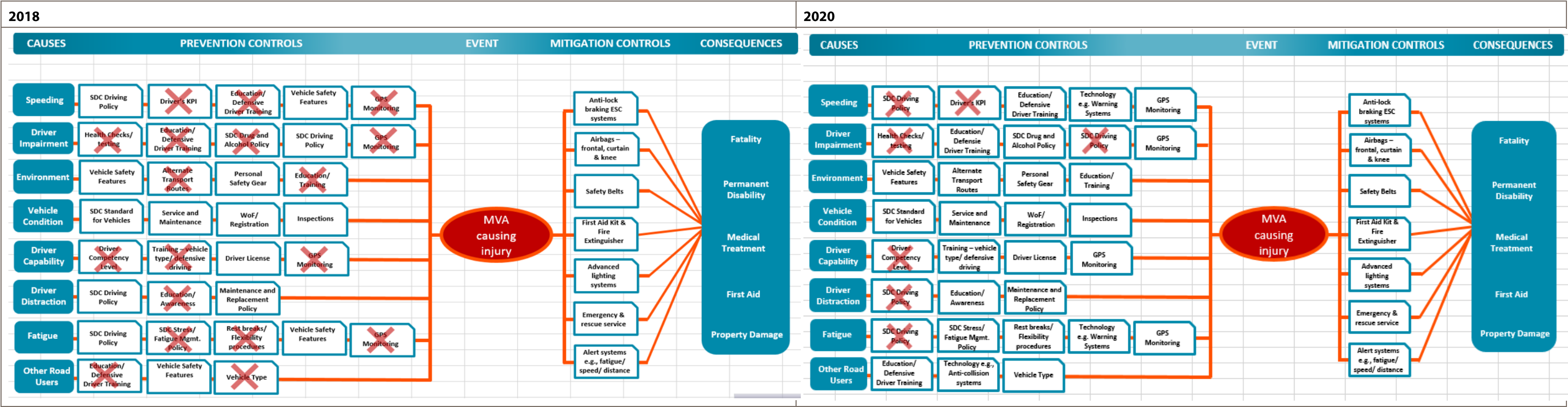




Critical Risk Bowtie Update

31<sup>st</sup> May 2020

Motor Vehicle Accident Causing Injury



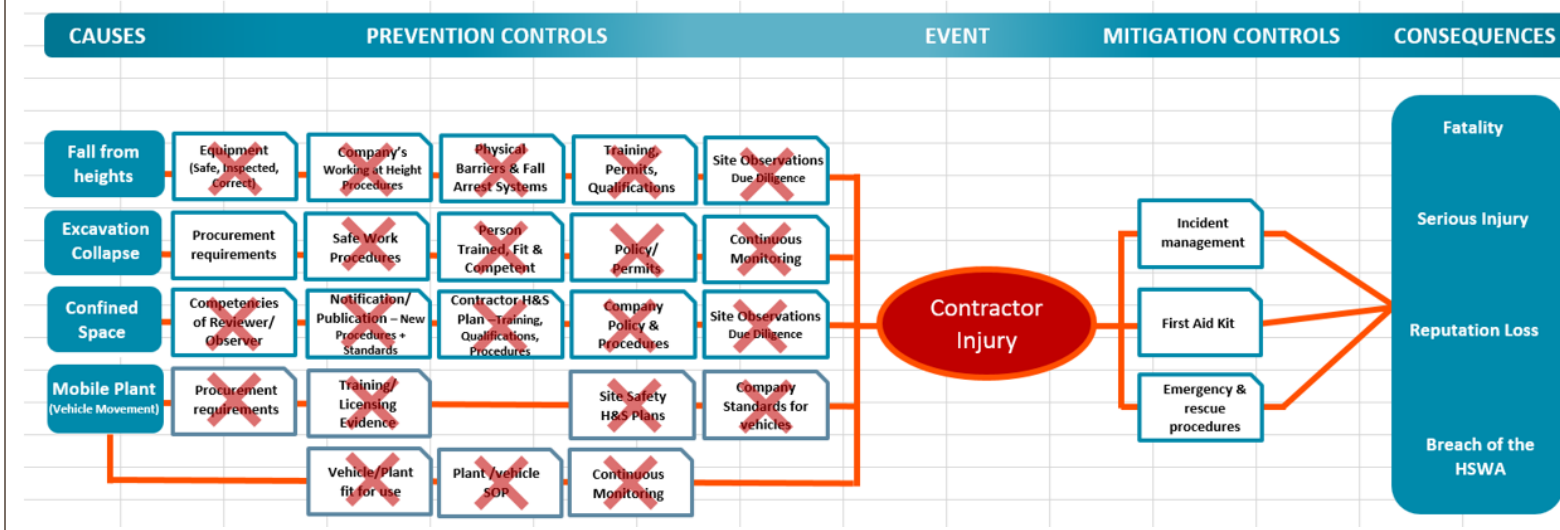
PRIORITIES COMPLETED SINCE MAY 2018:

GPS Monitoring approved and implementation underway

Fatigue Management Handbook completed and distributed also included in new HS employee induction handbook

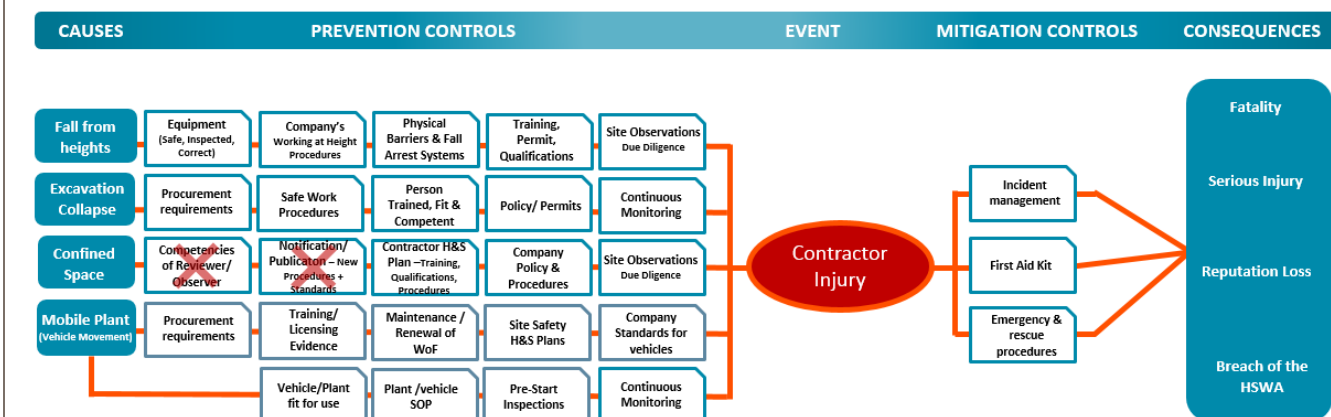
## Contractor Injury

2018



2020

Gap Analysis



### PRIORITIES COMPLETED SINE MAY 2018:

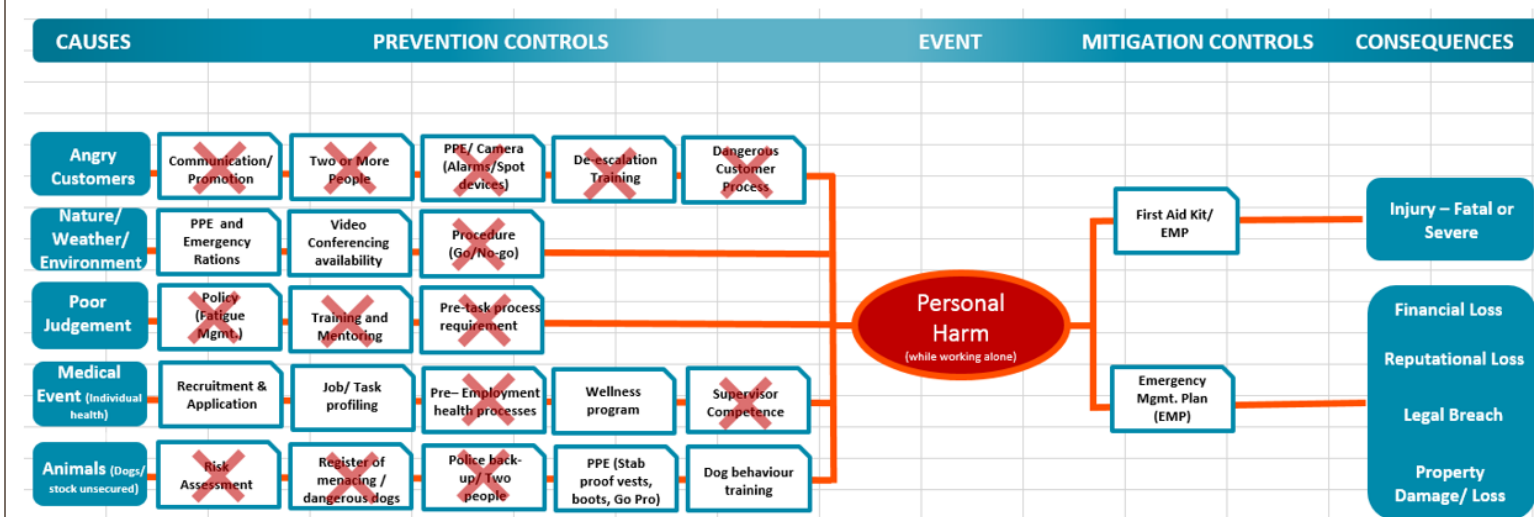
Pre-approval process reviewed and updated – includes requesting evidence of managing key risks listed in H&S contractor application

Procurement requirement – Contractor Handbook has been updated

Monitoring recorded with onsite observations and audits – includes follow up of corrective actions from monitoring outcomes

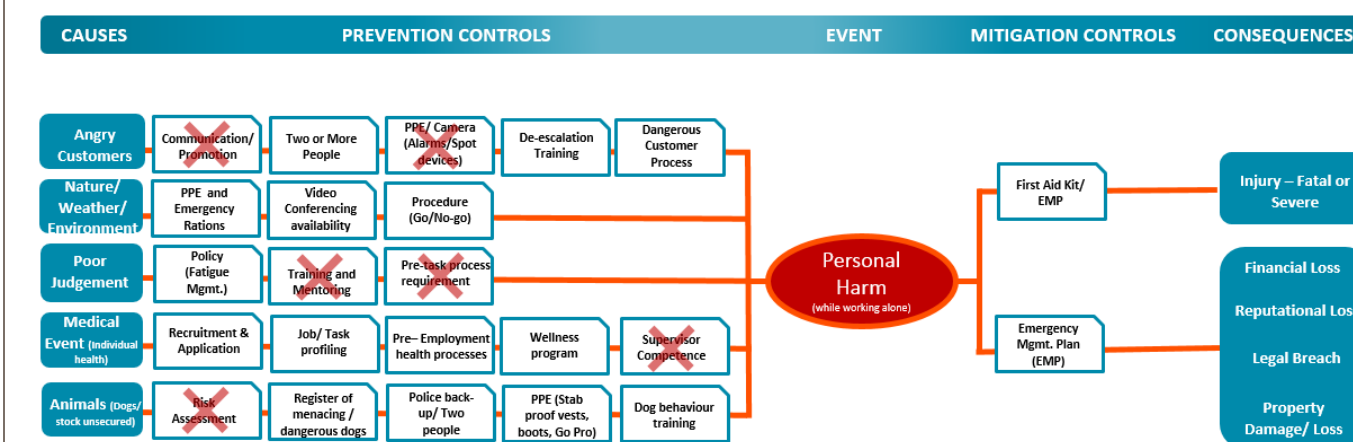
## Personal harm due to working alone

2018



2020

Gap Analysis



### PRIORITIES COMPLETED SINCE MAY 2018:

CCTV pilot is underway

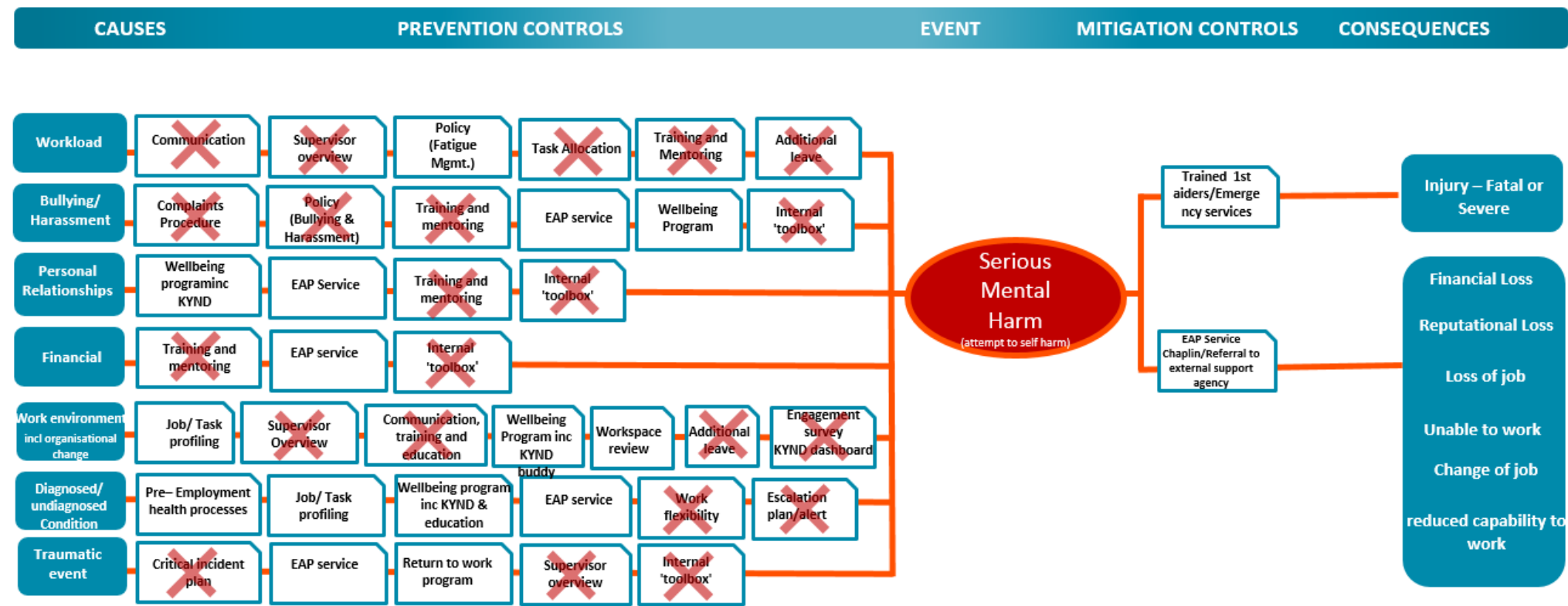
Fatigue Management Handbook completed and distributed also included in new HS employee induction handbook

Panic Alarm upgrades underway – Invercargill and Winton complete to date

De-escalation training completed in September 2018 and December 2019 and then ‘managing unreasonable customer conduct’ training completed in February 2020

Serious Mental Harm

A fourth bowtie was developed this year with the critical risk bowtie working group. Below is the Gap analysis to date:



Where to next 2020/2021

Motor vehicle accident causing injury:

SDC to develop performance indicators to measure the driver's safety performance around use of vehicles. The KPI's can be reviewed on monthly, quarterly or six - monthly basis.  
 A Health Monitoring process in consultation with staff will be developed.  
 SDC shall develop competence assessments, training plans following assessment and vehicle specific familiarization e.g. indicators on what side and a safe driving handbook/guide

Contractor injury:

SDC shall ensure the Contractor has in place a process to check the competencies of reviewers, observers or project managers carrying out observations or issuing work/projects in relation to confined space. An outside agency will be engaged if the level of knowledge required is outside of the scope of SDC staff.  
 SDC shall ensure it has in place a process to check all applicable contractors are aware and implementing if relevant any new notifications or publications on confined space or other significant risks

**Personal harm due to working alone**

SDC to verify communication processes are in place. It is important to ensure that all SDC employees and contractors working alone on any site understand the hazards and risks and what controls have been put in place. Periodic phone contacts from managers at set intervals should be set. SDC communication channels will cover:

- 1) Communication between SDC employee working alone with respective Manager.
- 2) Communication between our customer sites and SDC staff
- 3) Communication devices onsite where there is no cell phone coverage.

Continue CCTV and panic alarm upgrades and installs

Investigate and implement ‘man down’ tools and technology

SDC to verify that they have in place a process to check the competencies of supervisors such as team leaders/ managers.

**Serious Mental harm (attempt to self-harm)**

SDC to verify communication processes is in place. For example: Scheduled coaching sessions/meetings/one on ones/observations

Introduction of a sick leave bank with guidelines on how it will work

SDC shall review complaints procedure to ensure current and refresh employees on this procedure

SDC shall create a bullying and harassment policy

SDC shall provide contacts/access to information and support, including internal mentoring and ongoing employee training

SDC to record all health and wellbeing initiatives undertaken by Council and review for effectiveness. Create wellness program around procedure HS07. Support a healthy team and organisational climate. Join in with NZ health and wellbeing campaigns

SDC shall create an internal 'toolbox' for employees to refer to for help as an alternative to accessing EAP services

SDC shall have clear roles, training and career progression plans in place for job positions within the organisation

SDC shall provide Physiotherapist/occupational therapist services for workstation set up and early reporting of pain and discomfort. SDC shall support healthy workplace environment.

SDC shall develop a flexible working policy

SDC shall have a management plan for escalation

SDC shall develop a critical event plan and provide training and support on how to manage a critical incident

## Draft Health and Safety Plan for 2020/21

**Record No:** R/20/6/13328  
**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 Plan 2020/2021 to be presented to Council for formal approval.

### Executive Summary

- 2 Southland District Council has an obligation to manage the health and safety of its staff, contractors and volunteers. To be able to do this Council needs to continue on its journey with improving the focus on health and safety in the coming year.
- 3 A draft Health and Safety Plan for 2020/21 has been drafted which contains the proposed objectives for the year ahead. The plan is being presented to the Committee for their endorsement prior to seeking formal approval from Council.

### Recommendation

**That the Finance and Assurance Committee:**

- a) **Receives the report titled “Draft Health and Safety Plan for 2020/21” dated 16 June 2020.**
- b) **Determines that this matter or decision be recognised 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 Health and Safety Plan for 2020/2021.**

### Background

- 4 In 2019/20 ongoing progress was made on health, safety and wellness within Council including the implementation of a health and safety system, improved contractor approval process, ongoing development of health and safety training, continued work on critical risk control plans, implementation of the drug and alcohol policy and the start of the implementation of GPS in fleet vehicles.

- 5 An update on the Health and Safety Plan as of 31 May 2020 is attached (Attachment A) for Council's information. The critical control plan work is proposed to continue into 2020/21 along with the training on the procedures.
- 6 In 2017 our progress was benchmarked and reviewed by Simpson Grierson. In late June 2020 a new gap analysis will be undertaken. It is envisaged that in the 2020/21 year the focus will be to implement any opportunities identified in the gap analysis as well as what is identified in the draft plan.
- 7 A Health and Safety Plan for 2020/2021 has been drafted and is attached (Attachment B) for the Committee's consideration.
- 8 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.

## Factors to Consider

### Legal and Statutory Requirements

- 9 Council has a legislative obligation to manage the health and safety of workers.
- 10 The Health and Safety Plan continues the focus on a risk based approach to managing health and safety based within its undertakings.

### Costs and Funding

- 11 There will be ongoing health and safety costs with the implementation of this plan. Current known costs have been budgeted in the Long Term Plan. Both the Finance and Audit Committee and Council in March 2018 endorsed the continued spending on health and safety to ensure our staff get home safe every day.

### Policy Implications

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

## Analysis

### Options Considered

- 13 The options considered are to approve the Health and Safety Plan as presented (Option 1), recommend the plan subject to some minor amendments (Option 2) or Do Nothing (Option 3).

## Analysis of Options

### Option 1 – Agree to the Draft Health and Safety Plan 2020/2021

<i>Advantages</i>	<i>Disadvantages</i>
<ul style="list-style-type: none"> <li>improvement of health and safety culture</li> <li>illustration that Council and ELT are committed to caring for the wellbeing and safety of our people</li> <li>decline in the number of injuries</li> <li>meet legislative requirements.</li> </ul>	<ul style="list-style-type: none"> <li>possible additional financial implications</li> </ul>

**Option 2 – Modifies the Draft Health and Safety Plan 2020/2021**

<i>Advantages</i>	<i>Disadvantages</i>
<ul style="list-style-type: none"><li>• save some initial costs in the short term</li></ul>	<ul style="list-style-type: none"><li>• no clear guidelines</li><li>• health, safety and wellbeing of our people in jeopardy</li><li>• may not be consistent with legislative obligations.</li></ul>

**Option 3 – Do Nothing**

<i>Advantages</i>	<i>Disadvantages</i>
<ul style="list-style-type: none"><li>• avoids short term cost implications</li></ul>	<ul style="list-style-type: none"><li>• inconsistency in procedures</li><li>• no clear guidelines</li><li>• health, safety and wellbeing of our people in jeopardy</li><li>• not consistent with legislative obligations</li></ul>

**Assessment of Significance**

- 14 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**

- 15 Approves the recommendation to Council to adopt the Health and Safety Plan for 2020/21.

**Next Steps**

- 16 Continue working on the execution of the plan.

**Attachments**

- A Update on the Health and Safety Plan as of 31 May 2020 [↓](#)  
B Health and Safety Plan for 2020/2021 [↓](#)





## Update on Health Safety Wellbeing Action Plan

31<sup>st</sup> May 2020

In July 2019, Council agreed to the Health and Safety Plan 2019/20. Below is an update as of 31<sup>st</sup> May 2020.

KEY FOCUS AREAS FOR H&S	STEPS TO COMPLETE	SPONSOR	COMPLETE BY	UPDATE
<b>Complete implementation of H&amp;S Training</b> The development of health, safety and wellbeing e-learning modules and ensuring people are trained in what they are doing was a key focus for 2018/19. Reviewing and updating e-learning modules and supporting new employees in their health, safety and wellbeing training is the focus for 2019/20	Continue to develop education on our key H&S processes and ensure our people are trained in what we are doing.	Bruce Halligan	Dec 2019	Ongoing
	All staff trained in the e-learning modules		Dec 2019	Complete, new employees supported as they join organisation
<b>Critical Risk</b> Educate and train our people on risk and hazard management.  Prioritise Critical Risks and 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.	Finalisation of the serious mental harm critical risk control plan (bowties) and approval from ELT sponsor.	Trudie Hurst	June 2019	Ongoing work – will continue in 2020/2021
	Assess the effectiveness of the controls for the control plan and create corrective actions for any deemed not effective.		June 2019	
	Monitor closing out of corrective actions in Monthly reporting.		Dec 2020	
<b>Implementation of a H&amp;S system</b> Implement a web based Health and Safety system in line with budget and industry practice	Implementation plan complete	Anne Robson	June 2019	Complete
	Implementation of new H&S System		By Sept 2019	Complete
<b>Wellbeing</b>	Continue the work with becoming a Healthy Thinking Organisation	Janet Ellis	ongoing	Ongoing The last healthy thinking

Update on Health and Safety Plan  
31/05/2020

Southland District Council  
Te Rohe Pōtae o Murihiku

PO Box 903  
15 Forth Street  
Invercargill 9840

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@ sdc@southlanddc.govt.nz  
southlanddc.govt.nz





KEY FOCUS AREAS FOR H&S	STEPS TO COMPLETE	SPONSOR	COMPLETE BY	UPDATE
Continue to create a proactive and structured approach to dealing with staff wellbeing.				workshops and KYND app promotion Feb 2020
<b>Contractor management</b> Requalify and review approved contractors	Requalify and review approved contractors ready for H&S system implementation	Matt Russell	June 2019	<b>Complete</b>
	Determine routine audit and safety inspection schedules for all contractors and council engaging supervisors		June 2019	<b>Ongoing</b>
<b>Gap Analysis</b> Undertake a gap analysis to assess our improvements and detail any areas for improvement.	Undertake an H&S gap analysis	Steve Ruru	Feb 2020	<b>Booked in for June 2020</b>
	Implement improvement opportunities in the gap analysis		From Mar 2020	<b>Moved to 20/21 plan</b>





## Health Safety & Wellbeing Plan 2020/2021

	June 2020
Date Approved:	
Approved By:	

### Our H&S Commitment – Approved by Council

*We care for the wellbeing and safety of our people and those who interact with us. Our goal is to deliver safe and effective services to our community and ensure everyone gets safe home every day.*

### Current State

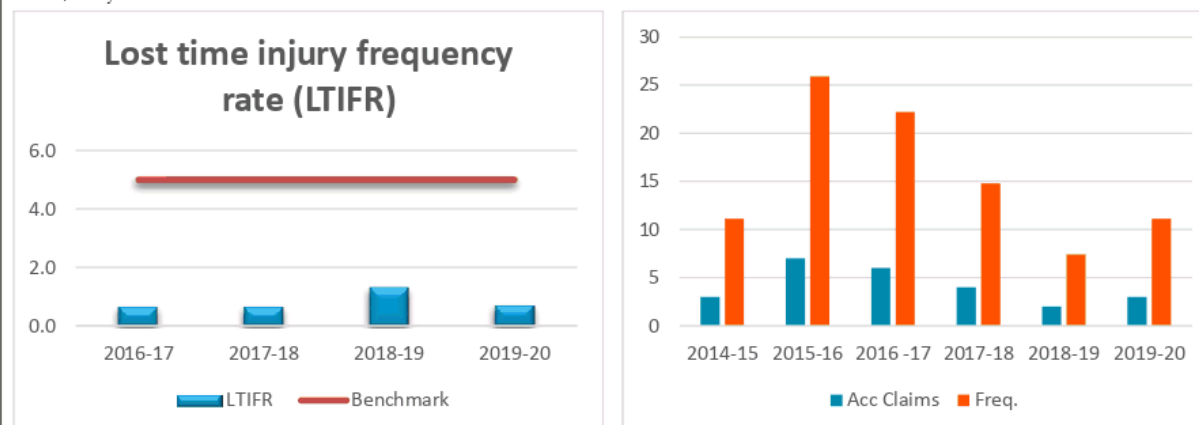
With the new health and safety system implemented and now being utilised across the organisation, tracking of health and safety monitoring, events and corrective actions is more transparent. This supports health safety and wellbeing accountability for all staff, contractors and visitors to achieve our goal of safe home every day.

Our health and safety was benchmarked and reviewed by an external organisation in 2017, and our health and safety management has focused on key gaps identified in this analysis. Leading into the 2020/21 plan, a health and safety external gap analysis undertaken in June 2020 will ensure we continue on the correct path to continually improve health safety and wellbeing.



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 adjacent diagram indicates where we believe our current organisational culture to be. It is positive to see the move up this ladder from a reactive and calculative culture progressing towards a proactive culture. We need to have a plan that will continue to deliver a focus on health, safety and wellbeing to achieve the goal of proactive towards generative. We have developed this plan, as a way to ensure we measure and progress our health, safety and wellbeing journey. We acknowledged that health, safety and wellbeing continues to be one of our top priorities as an Executive Leadership team.

The graph below shows our **current** lost time injury frequency rates (LTIFR) since 2016. This is based on the average hours worked by our 153 FTE workforce. This frequency rate is the number of lost time injuries per 200,000 hours worked. While the majority of the injuries recorded are minor in nature, it is a reminder that a serious injury can occur at any time. Contemporary organisations use a <5 total injury frequency rate (LTIFR) as a benchmark target. A graph of ACC claim trends below also indicates that with the continued focus on H&S, injuries requiring an ACC claim remaining low, being 3 for the 2019/20 year.



### Action Plan

As part of our commitment as a Leadership Team we will co-sponsor a key activity within the health, safety and wellbeing plan, this sponsorship commitment is to supporting the roll-out of the initiative or objective and keep each other and our teams on track in undertaking the objectives within SDC.

Key Focus Areas for H&S	Steps to complete	Sponsor	Complete by date
<b>Review of H&amp;S Training and addition of final framework modules</b> Reviewing and updating e-learning modules and supporting new employees in their health, safety and wellbeing training was the focus for 2019/20. The review and refining of these modules remains the focus for 2020/21 with the addition of the last four framework topics. Refresher will be a key part of H&S training for 2020/21 along with supporting new employees undertaking this.	Continue to develop education on our key H&S processes and ensure our people are trained in what we are doing.	Janet Ellis	Dec 2020
	Review current modules and refine. Update to add the new H&S management system procedures		Mar 2021
	All staff refreshed in the e-learning modules		June 2021
<b>Critical Risk</b> Continue to educate and train our people on risk management.  Prioritise Critical Risks and allocate resources based on the priorities. Complete 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.	Finalisation of the serious mental harm critical risk control plan (bowties) and approval from ELT sponsor. Assess effectiveness of controls and develop corrective actions	Trudie Hurst	Dec 2020
	Review critical risk bowties in line with gap analysis recommendations		August 2020
	Focus on lone working risk management		Dec 2020
<b>Wellbeing</b> Continue to create a proactive and structured approach to dealing with staff wellbeing and extending this to our community	Continue the work with becoming a Healthy Thinking Organisation	Janet Ellis	ongoing
	Extend our healthy thinking opportunities to our community		
<b>Contractor management</b> Contractor monitoring and communication	Steadily increase contractor monitoring and recording via H&S system (SHED app and platform)	Matt Russell	Dec 2020
	Improve communication and engagement with contractors by encouraging constructive feedback and creating more opportunities to work together to ensure everyone gets safe home every day		May 2021
<b>Gap Analysis</b> Assess our improvements and detail any areas for improvement.	Review current actions against gap analysis recommendations and align health safety wellbeing implementation plan	Steve Ruru	July 2020
	Implement improvement opportunities in the gap analysis		From Aug 2020



## 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.

#### **C8.1 Annual Insurance Renewal**

#### **C8.2 Deloitte Fraud Risk Assessment**

#### **C8.3 Operational Risk 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
Annual Insurance Renewal	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.
Deloitte Fraud Risk Assessment	s7(2)(f)(ii) - The withholding of the information is necessary to maintain the effective conduct of public affairs through the protection of such members, officers, employees and persons from improper pressure or harassment.	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.
Operational Risk Report	s7(2)(g) - The withholding of the information is necessary to maintain legal professional privilege.  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.