



## Audit and Risk Committee

Minutes of a meeting of the Audit and Risk Committee held in the Council Chamber, 26 Gordon Street, Dannevirke on Tuesday 22 October 2024 commencing at 9:30am.

### 1. Welcome and Meeting Opening

Mr P Jones (Chairperson), Her Worship the Mayor - Mrs T H Collis, Crs E L Peeti-Webber (Deputy Mayor), A K Franklin, S M Gilmore, P A Johns, M F Long, K A Sutherland, S A Wallace and S M Wards

#### In Attendance

Ms R Bell	- RFB Consulting
Mr B Nicholson	- Chief Executive
Mr R Suppiah	- Group Manager – Corporate and Regulatory
Mr H Featonby	- Group Manager - Infrastructure
Mr S Dunn	- Risk and Assurance Advisor
Mrs G Anderson	- Health and Safety Coordinator
Mrs S Walshe	- Finance Manager
Ms J Smith	- Legal Counsel and Procurement Manager
Ms A Rule	- Policy and Planning Advisor
Mr M Dunn	- Manager - Programmes and Projects
Mr P Wimsett	- Chief Advisor
Mrs A Dunn	- Manager – Democracy Services

### 2. Apologies

2.1 ***That the apologies from Councillor N L Chase be approved and leave of absence granted for the meeting.***

***Sutherland/Johns***

***Carried***

### 3. Public Forum

There were no requests for public forum.

#### **4. Notification of Items Not on the Agenda**

Nil

#### **5. Declarations of Conflicts of Interest in Relation to this Meeting's Items of Business**

Nil

#### **6. Confirmation of Minutes**

6.1 *That the minutes of the Audit and Risk Committee meeting held on 27 August 2024 (as circulated) be confirmed as a true and accurate record of the meeting.*

*Johns/Wallace*

*Carried*

#### **7. Reports**

##### **7.1 Audit New Zealand Draft Management Report for the 2024/2034 Long Term Plan**

The Audit and Risk Committee considered the report of the Finance Manager dated 14 October 2024 that presented the Audit New Zealand draft Management Report for the 2024-34 Long Term Plan for review and comment.

It was noted that the two recommendations made in the draft Management Report were already planning for in the Long Term Plan.

In discussion, the following matters were covered:

- Audit New Zealand's comment that Council's decisions evolved over time: it was clarified that Council did not change its decision, therefore request that the management report be corrected.
- Re additional costs indicated by Audit New Zealand, clarification sought as to whether an indication of those costs had been provided, and whether it could be justified given clarification of the comment regarding changing Council decisions. It was noted that Audit New Zealand should be specific about what these costs may be. Her Worship the Mayor noted that she would appreciate being involved in wider conversations with Audit regarding value for money, and that Chairperson be involved as well. Noted that officers had to spend significant time with the auditors to assist, and the time delays that were a result of audit delays.
- Clarification sought as to what constitutes a material misstatement. If there are misstatements, what work would be required to correct those. Further

in the report are set out misstatements that had been found and rectified. It was noted that a Long Term Plan is based on best assumptions based on information available at a specified point of time. Once adopted, if during the year changes are needed, there can be a variation to a budget, or revision through the Annual Plan process.

- Audit comment regarding sources of funding for replacement of significant assets: the meeting discussed the statement of Audit that depreciation should be used for replacement of assets, rather than considering depreciation as an allocation of the cost of that asset over its useful life. It was noted that while an element of renewals should be funded by depreciation, where there is insufficient renewals budgeted due to a shortened life of an asset, the whole of the balance sheet is looked at, loan funding can be used which is allowed for in Council's Revenue and Financing Policy. It was noted that credit rating was being sought, to allow for more headroom for future debt, particularly years 4, 5 and 6. It was confirmed that sufficient budget had been allocated for the planned programme of works.
- The definition of technical useful life and conditional assessments which can lead to extending the remaining useful life of an asset.
- Consultation document – it was noted that the Council decided to go with an unaudited consultation document, as did other Councils in New Zealand. Concern was expressed about whether this could be an area of additional cost. Context was provided that the risk for Council was if the consultation document didn't match the statutory requirements, that could invalidate the Long Term Plan. Audit had an obligation to review the consultation document to ensure it met the legislative requirements.

***That the report from the Finance Manager dated 14 October 2024 concerning the Audit New Zealand Draft Management Report for the 2024/2034 Long Term Plan be received.***

***That the Audit and Risk Committee note Audit New Zealand expressed an unmodified audit opinion on the Long Term Plan 2024/2034 Consultation Document with an emphasis of matter paragraph to draw readers' attention to the uncertainty over funding for Cyclone Gabrielle roading recovery work.***

***Collis/Johns***

***Carried***

## **7.2 Audit New Zealand Audit Plan - 2023/2024 Annual Report**

The Audit and Risk Committee considered the report of the Finance Manager dated 14 October 2024 that provided a copy of the Audit Plan from Audit New Zealand for the Annual Report 2023-24 for information.

It was noted that the Auditors had started their audit.

In discussion, the following matters were covered:

- Risks and issues – valuation of infrastructure assets at fair value. Clarification provided on how these assets were valued and the significant work that had been put into this.
- Level of satisfaction with how the impairment of the Dannevirke impound supply has been considered, noting impairment was a difficult and subjective calculation, and Audit would likely do a close examination of that.
- Explanation of the processes undertaken for valuation of land and buildings, and the fair value assessment undertaken, in accordance with the accounting and auditing standards. This included consideration of impairment of any assets. It was advised that fair value and impairment needed to be done each year, so that the balance sheet correctly reflected the value of the assets.
- It was noted that if the Government wished to reduce costs for the public sector, then an option they could contemplate would be reducing the accounting and auditing standards for the public sector.
- It was noted that the Council was in disagreement with the Auditor's comments on the Tararua Aquatic Trust and this had previously been dealt with, but would be reviewed and comments provided back to Audit New Zealand.
- It was asked whether the Council had the ability to review the provision of auditor. It was clarified that the appointment of the auditor was the decision of the Auditor General.

***That the report from the Finance Manager dated 14 October 2024 concerning the Audit New Zealand Audit Plan - 2023/2024 Annual Report be received.***

***That the Audit and Risk Committee note the timeline for completing the audit.***

***Wallace/Wards***

***Carried***

### 7.3 **Update on Direct Debit Issue**

The Audit and Risk Committee considered the report of the Contractor dated 11 October 2024 that provided an update on the Direct Debit issue, and raised challenges and concerns being faced in relation to that issue.

It was noted that a big push had been made to get all the recalculations completed for the impacted households to ensure that their direct debits were correct going forward, and that they were happy with the new direct debits.

It was advised that a plan was in place with most of the affected households, with work continuing on agreeing solutions with remaining households, with many

seeking the ability to postpone their rates.

In terms of the investigation into the process and systems, and the cause of the issue rates rebate direct debit error, it was noted that Ross Franklin was undertaking the investigation, and would report back to Council when this was complete.

Concerns around the project include the resourcing for this work, with staff working on this on top of their normal daily responsibilities, and while contracted assistance to manage the project and help with communications had been brought in, and the Palmerston North City Council call centre had helped take the overload of calls, it had been a big commitment from staff. This has been monitored carefully and support provided where needed. The project was now moving into a sustained phase, which was expected to ease the pressure on workloads.

With regard to a potential legal challenge, there has not been any information received relating to this.

With regard to the LGOIMA request received, information was provided in response but nothing has been heard back in relation to this.

The committee discussed the increased scope of the direct debit error, noting that it had been identified that there might be a wider issue with the number of impacted households. In response to questions raised, the following answers were provided.

Why was a sample check not done on other direct debits - initial focus was on those that needed manual recalculation after application of the rates rebate. Focus on was on contacting impacted households to ensure those that were in debt did not fall further behind. All final calculations needed to be done by third week of October. All focus and resourcing went into finding individual solutions for affected households. A sample check was done, and this identified other households.

When will we know how many people are likely to be impacted - due to complexity of rating system, each needs to be investigated separately. This requires involvement of several different staff to come up with this list, and is a work in progress. It is a priority this investigation.

When will we know an estimate of the amounts involved - we believe we are looking at a smaller group. As soon as we have a list of these households we will have the amounts involved.

Is it likely that we will need to enter an acute stage to deal with this - no, we believe it will be smaller and now have a process in place to deal with these.

What are the other issues with our rates debtor management - as part of our ongoing investigation into the error, we provided examples to the investigator.

Where we have set up a payment plan, and then not followed up on it when apparent they were not keeping up. Another example is a ratepayer missing payments and this not being followed up.

It was noted that improvements to the process had been identified, and Council was relying on the investigator to bring this to light.

Clarification was provided the rates postponement policy, as drafted would cover the ratepayers in the newly identified group. However, a legal review of this applicability of the policy as worded would be undertaken.

Assurance was sought that Council was looking at the significant toll on the wellbeing of key staff involved in this matter, ensuring Council was doing what it could to ensure they were supported. Assurance was provided that this was constantly being monitored and discussed, and Council was doing what it could to provide support.

In response to a question about the risk to daily business requirements, and how that risk was being assessed as the issue grew, it was noted that it was clear that this was a priority of the organisation to get a resolution for the impacted households as soon as possible. The balance of managing daily business requirements and this project was being constantly managed and discussed, and there will be some tasks that were made lower priority due to this. It was noted that resourcing to the team and from other parts of Council was made to support the rates and revenue team.

***That the report from the Contractor dated 11 October 2024 concerning the Update on Direct Debit Issue be received.***

***Gilmore/Wallace***

***Carried***

*The meeting adjourned at 11:03am and reconvened at 11:11am.*

#### **7.4 Risk Management Report**

The Audit and Risk Committee considered the report of the Risk and Assurance Advisor dated 10 October 2024 that provided an update on matters relating to risk management.

The following matters were highlighted from the report:

- Emerging risks section, risk related to people that may pose a security risk to council. Reported back on conversation held with Police, who were satisfied with physical security being provided at the water treatment plant, and cameras, but wanted to draw Council's attention to how we gather and manage information about people that may pose a risk to the organisation. Noted Council has in place a security policy, and will have a committee in place. The Police would like us to build a picture where information comes

from across council to a central point, to bring into an intelligence picture.

- The Chief Advisor noted that budget provision had been made for improving security at key locations. With regard to physical threats, and maintaining a cohesive centre of the information so we can database this information and develop processes. It was important to ensure that elected members could feed into that.
- Re insurance, information was sought on the potential exposure due to the issue of how some of Council's assets had been categorised, and why this had not been identified and picked up by the insurance broker who looks across many councils and classification of those assets. An explanation was provided on the material damage and business interruption insurance, that should cover all of the above ground assets, and anything that may suffer material damage. Another policy is named the infrastructure policy, however this has a limited scope and only covers damage to below ground assets as a result of a natural disaster. An investigation was underway and it was asked that the process for ensuring Council had the right assets insured be provided to the next meeting of the Audit and Risk Committee. It was noted that level of risk was a discussion item with MWLASS around options with self-insurance. It was also asked that information be included in that report on when the last insurance claim was made.

***That the report from the Risk & Assurance Advisor dated 10 October 2024 concerning the Risk Management Report (as circulated) be received and adopted.***

***Wallace/Long***

***Carried***

## 7.5 Assurance Management Report

The Audit and Risk Committee considered the report of the Risk and Assurance Advisor dated 9 October 2024 that provided an update to the committee on assurance matters.

The following matters were highlighted:

- The Unreasonable Customer Behaviour Policy, noting the amendments that had been made and seeking feedback from the committee on the policy.
- Noted an escalation around Dannevirke impound supply, that went well, were alerted to a change in the area surrounding the dam, initiated the plan, carried out the actions, review completed and was found to be an erroneous situation. This was a good exercise of the emergency plan for the impound supply.
- Rates Rebate Direct Debit error, it was asked why this was not picked up in the rates reconciliation. It was explained that a rates reconciliation compared the amount of rates set against what was adopted in the Long

Term Plan, and also reconciled rating values in Council's rating database against the Quotable Values figures.

- Expenditure approval item, it was asked when the target date was to complete this review to ensure one up approval for expenditure. It was noted changing the system was complex, however controls had been put in place to address the risk. A test needed to be undertaken to test that control.

***That the report from the Risk & Assurance Advisor dated 09 October 2024 concerning the Assurance Management Report (as circulated) be received and adopted.***

***Wallace/Long***

***Carried***

## 7.6 **Health, Safety & Wellbeing Management Report**

The Audit and Risk Committee considered the report of the Risk and Assurance Advisor dated 4 October 2024 that provided an overview of Health, Safety and Wellbeing staff-based reporting and key indicators and data which assist to trend patterns, assess hazard / risk controls, and implement actions and initiatives relating to the operations of Council.

It was noted that officers were due to bring back a work programme to this meeting, however capacity issues from the direct debit situation had delayed that work. A verbal update was provided, noting the Health and Safety Coordinator had been working on a number of initiatives. The Solid Waste activity had been brought back inhouse, which required all staff to undertake comprehensive first aid training, documentation, risk assessments and this was progressing well. Also undertaken was the reinvigoration of employee representatives in engagement in health and safety, and contractor prequalification to provide confidence that when contractors were brought on board they had sufficient health and safety programmes in place. Another work stream was the critical risk associated with working alone or remote working.

With regard to due diligence, a site visit for the Mayor and Councillors to the Pahiatua sites would be scheduled for 10 December 2024.

With regard to hazardous substances, it was advised that a report had been lodged on a historic chlorine exposure incident that happened in 2021. It was understood from the worker involved they had previously reported the incident, however the documentation had not been found.

With regard to the report on severe exposure hazard to chemicals stored inside plant, the remedy was to move the storage to outside the plant.

With regard to notified events through to Worksafe, it was agreed that these should be communicated to the Governance health and safety champion.



***That the report from the Risk & Assurance Advisor dated 04 October 2024 concerning the Health, Safety & Wellbeing Management Report (as circulated) be received and adopted.***

***Gilmore/Wards***

***Carried***

**8. Items not on the Agenda**

8.1 Nil

There being no further business the Chairperson thanked those present for their attendance and contributions, and declared the meeting closed at 12:16pm.

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Chairperson