

Audit and Risk Committee

NOTICE IS GIVEN

that the next meeting of the **Audit and Risk Committee** will be held in **Venue** on:

Tuesday, 27 February 2018 commencing at 1.01 pm.

Mary-Anne Macleod
Chief Executive
27 February 2018



Audit and Risk Committee

Terms of Reference

The Audit and Risk Committee has a core function for the formulation, review and monitoring of audit and risk frameworks. It will also monitor the effectiveness of funding and financial policies and Council's performance monitoring framework. It will receive and review the draft Annual Report, and external Audit letter and management reports.

Delegated Function

To monitor the effectiveness of Council's funding and financial policies and frameworks.

To monitor the effectiveness of Council's performance monitoring framework.

To approve and review Council's audit and risk policies and frameworks.

Membership

Five councillors, one independent Council appointee, and the Chairman as ex-officio.

Quorum

In accordance with Council standing order 10.2, the quorum at a meeting of the committee is not fewer than three members of the committee.

Term of the Committee

For the period of the 2016-2019 Triennium unless discharged earlier by the Regional Council.

Meeting frequency

Quarterly.

Specific Responsibilities and Delegated Authority

The Audit and Risk Committee is delegated the power of authority to:

- Monitor the effectiveness of Council's funding and financial policies and Council's performance monitoring framework (financial and non-financial);
- Review Council's draft Annual Report prior to Council's adoption;
- Receive and review external audit letters and management reports;
- Approve and review the internal audit plan and review the annual programme report;
- Approve, review and monitor Council's risk framework and policy;
- Review the risk register;
- Monitor Council's legislative compliance and receive reporting on non-compliance matters as part of risk management reporting.

Note:

- The Audit and Risk Committee reports directly to the Regional Council.
- The Audit and Risk Committee is not delegated the power of authority to:
 - Develop, review or approve strategic policy and strategy.

Develop, review or approve Council's Financial Strategy, funding and financial policies and non-financial operational policies and plans.

Public Forum

1. A period of up to 15 minutes may be set aside near the beginning of the meeting to enable members of the public to make statements about any matter on the agenda of that meeting which is open to the public, but excluding any matter on which comment could prejudice any specified statutory process the council is required to follow.
2. The time allowed for each speaker will normally be up to 5 minutes but will be up to the discretion of the chair. A maximum of 3 public participants will be allowed per meeting.
3. No statements by public participants to the Council shall be allowed unless a written, electronic or oral application has been received by the Chief Executive (Governance Team) by 12.00 noon of the working day prior to the meeting and the Chair's approval has subsequently been obtained. The application shall include the following:
 - name of participant;
 - organisation represented (if any);
 - meeting at which they wish to participate; and matter on the agenda to be addressed.
4. Members of the meeting may put questions to any public participants, relevant to the matter being raised through the chair. Any questions must be asked and answered within the time period given to a public participant. The chair shall determine the number of questions.

Membership

Chairperson:

Deputy Chairperson:

Committee Advisor:

Recommendations in reports are not to be construed as Council policy until adopted by Council.

Agenda

- 1 Apologies**
- 2 Public Forum**
- 3 Acceptance of Late Items**
- 4 General Business**
- 5 Confidential Business to be transferred into open**
- 6 Declarations of Conflicts of Interests**
- 7 Previous Minutes**
- 8 Reports**
 - 8.1 External Audit: Management Report on the Long Term Plan 2018-2028 Consultation Document** **13**
 - APPENDIX 1 - Audit NZ Final Management Report on BOPRC Long-Term Plan Consultation Document 17
- 9 Consideration of General Business**

Previous Minutes

Reports



Receives Only – No Decisions

Report To: Audit and Risk Committee

Meeting Date: 01 March 2018

Report From: Mat Taylor, General Manager, Corporate Performance

External Audit: Management Report on the Long Term Plan 2018-2028 Consultation Document

Executive Summary

The Council has received the external audit Management Report for the Long Term Plan Consultation Document (CD) for the period 1 July 2018 to 30 June 2028. This management report is from Audit New Zealand (our external auditors) and is based on a range of reviews of documents, plans, and processes undertaken by audit staff. The full Audit New Zealand Management Report is contained in Appendix 1 to this report.

The consultation document received an unmodified opinion on 15 February 2018. The audit management report identifies key issues and provides any relevant recommendations.

There were no recommendations for improvements in the report and Audit New Zealand commented that: *“The Council had an effective control environment and good quality review processes for the development of the underlying information and the CD.”*

The Council produced a CD that fulfilled its primary purpose of providing an effective basis for public participation in decisions on the content of the LTP. The CD included all the major matters that we expected, provided preferred and alternative options to address these issues and encouraged the community to provide feedback.”

Recommendations

That the Audit and Risk Committee under its delegated authority:

- 1 Receives the report, External Audit: Management Report on the Long Term Plan 2018-2028 Consultation Document;**
- 2 Notes the final audit of the Long Term Plan 2018-2028 is scheduled to commence 5 June 2018.**

1 Introduction

In February 2018 Audit New Zealand released its final audit Management Report on Bay of Plenty Regional Council's Long Term Plan Consultation Document for the period 1 July 2018 to 30 June 2028.

The report sets out the findings from their audit. The full management report is included in Appendix 1 of this report.

2 Findings from the Management Report

The report provides assurance in the following areas:

- The external audit statutory audit opinion on the consultation document
- Audit scope and objectives
- Control environment

Following the comprehensive review there were no recommendations for improvement highlighted in the report.

3 Areas of Audit Emphasis

During the planning stage of the audit, and during the review of the content of the CD, Audit New Zealand identified the following key business risks and issues. The key comments from the audit of these areas are set out below:

3.1 Content of the CD

Audit New Zealand commented that "The CD included all the major matters that we expected, provided preferred and alternative options to address these issues and encouraged the community to provide feedback."

3.2 Adopting and auditing the underlying information

Audit New Zealand commented that "the Council prepared and adopted the underlying information necessary to support the CD. These were adopted before the adoption of the CD as required by the Act on 15 February 2018."

3.3 Financial Strategy

Financial Strategy – Audit New Zealand reported that "the current Strategy is financially prudent and compliant with legislative requirements."

3.4 Infrastructure Strategy

Quality of asset related forecasting information – Audit New Zealand found that "the Council's systems and methodology for establishing data reliability are robust."

3.5 Project management, reporting deadlines and audit progress

Audit New Zealand commented that “The Council had detailed project plans and timelines for different parts of the LTP, plus overall project plans and timelines. This contributed to the Council being prepared for audit and meeting key LTP deadlines.”

3.6 Self-assessment

Audit New Zealand was satisfied that any key issues and risks highlighted in the self-assessment carried out by the Council have been adequately disclosed in the CD. These matters are included in section 4 below.

4 Other Matters

Audit New Zealand completed the planned work on the areas detailed in the audit proposal and arrangements letter and identified the following other matters:

4.1 Climate change

Audit New Zealand was satisfied that assumptions and challenges associated with climate change have been disclosed within the consultation document.

4.2 Significant growth in passenger transport

Audit New Zealand was satisfied that the changes associated with Passenger Transport have been adequately incorporated in the CD, Financial Strategy and other underlying information.

4.3 Rivers and drainage flood recovery

Audit New Zealand confirmed that proposed targeted rate changes to fund flood repairs had been adequately incorporated into the CD, Infrastructure Strategy and Financial Strategy, Rivers and Drainage Asset Management Plan and other underlying information

4.4 Funding for third party infrastructure

Audit New Zealand was satisfied that funding proposals for third party infrastructure had has been adequately disclosed within the consultation document, infrastructure policy and other underlying information.

4.5 Borrowings

Audit New Zealand agreed with the Council that, by using borrowings, this will take inter-generational equity into account.

4.6 Revenue from Quayside Holdings Limited (QHL)

Audit New Zealand confirmed that increased revenue from QHL has been adequately incorporated into the CD, the Financial Strategy, and other underlying information.

4.7 Flow of information between documents

Audit New Zealand commented that they were satisfied the source information has flowed appropriately into the forecast model including the assumptions around inflation and growth.

5 Future focus

As well as the opinion issued on the Consultation Document, Audit New Zealand will also issue an opinion on the final LTP that will be adopted in June 2018.

6 Conclusion

The external auditors report has discussed the findings of the audit and commented that “The CD included all the major matters that we expected, provided preferred and alternative options to address these issues and encouraged the community to provide feedback”. There were no recommendations to action in the report.

7 Council’s Accountability Framework

7.1 Community Outcomes

This project/proposal directly contributes to the Regional Collaboration and Leadership Community Outcome in the council’s Long Term Plan 2015-2025.

7.2 Long Term Plan Alignment

This work is planned under the Finance, and the Organisational Planning Activity in the Long Term Plan 2015-2025.

Current Budget Implications

This work is being undertaken within the current budget for the Finance and Organisational Planning Activity in the Annual Plan 2017/18

Future Budget Implications

Future work is provided for in Council’s Long Term Plan 2018-2028.

Debbie Hyland
Finance and Corporate Planning Manager

for General Manager, Corporate Performance

27 February 2018

APPENDIX 1

Audit NZ Final Management Report on BOPRC Long-Term Plan Consultation Document

745 Cameron Road
PO Box 621, Tauranga 3140

Phone: 04 496 3099

26 February 2018

Doug Leeder
Chairman
Bay of Plenty Regional Council
PO Box 364
Whakatāne 3158

Dear Doug

**Final Management Report on the audit of Bay of Plenty Regional Council's
Long-Term Plan Consultation Document for the period 1 July 2018 to 30 June 2028**

We have now finalised the management report on the recently completed audit – a copy is attached for your records.

We would like to thank the Council, management and staff for their assistance during the audit. If you have any questions please contact me directly on 021 222 8215.

Yours sincerely



B H Halford
Director

Encls

cc Mary-Anne Macleod, Chief Executive
Mat Taylor, General Manager Corporate Performance

Report to the Council on the audit of
Bay of Plenty Regional Council's Long-Term Plan Consultation Document
for the period 1 July 2018 to 30 June 2028

Key messages

Summary

We have completed the audit of the Bay of Plenty Regional Council's (the Council) Long-Term Plan Consultation Document (CD) for the period 1 July 2018 to 30 June 2028 and issued an unmodified opinion on 15 February 2018.

The development of the Long-Term Plan (LTP) is a significant undertaking. The Council had an effective control environment and good quality review processes for the development of the underlying information and the CD.

The Council produced a CD that fulfilled its primary purpose of providing an effective basis for public participation in decisions on the content of the LTP. The CD included all the major matters that we expected, provided preferred and alternative options to address these issues and encouraged the community to provide feedback.

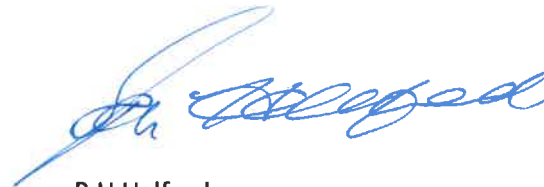
Future focus

As well as the opinion issued on the CD we will also issue an opinion on the final LTP that will be adopted before 1 July 2018.

The Council needs to ensure that there are systems in place to monitor its actual performance against budgets, levels of service and performance measures included in the LTP from 1 July 2018. These systems will assist with internal monitoring and reporting to the Council, as well as annual reporting.

Thank you

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



B H Halford
Audit Director
22 February 2018

Contents

1	Our audit opinion	3	4.4	Self-assessment.....	5
1.1	We issued an unmodified audit opinion	3	5	Other matters arising from the audit.....	6
1.2	Unadjusted misstatements	3	5.1	Climate change.....	6
2	Audit scope and objective	3	5.2	Significant growth in passenger transport.....	6
3	Control environment.....	3	5.3	Rivers and drainage flood recovery	7
4	Areas of audit emphasis.....	4	5.4	Funding for third party infrastructure	7
4.1	Content of the CD.....	4	5.5	Borrowings	8
4.2	Adopting and auditing the underlying information	4	5.6	Revenue from Quayside Holdings Limited (QHL).....	8
4.2.1	Financial Strategy	4	5.7	Flow of information between documents	8
4.2.2	Infrastructure Strategy	5		Appendix 1: Mandatory disclosures.....	9
4.2.3	Quality of asset-related forecasting information.....	5			
4.3	Project management, reporting deadlines and audit progress ...	5			

1 Our audit opinion

1.1 We issued an unmodified audit opinion

We issued an unmodified audit opinion on the Council's CD on 15 February 2018.

This meant we were satisfied that the Council's CD meets the statutory purpose and provides an effective basis for public participation in Council's decisions about the proposed content of the 2018-28 LTP.

We found the underlying information and assumptions used to prepare the CD provided a reasonable and supportable basis for the preparation of the LTP.

1.2 Unadjusted misstatements

The CD is free from material misstatements, including omissions. However, in the course of the audit, we found certain misstatements that are individually and collectively not material to the CD.

We have discussed any misstatements that we found with management. We are satisfied that these misstatements are individually and collectively immaterial.

2 Audit scope and objective

The scope of our audit engagement and our respective responsibilities are contained in our Audit Proposal and Arrangements Letter dated 16 November 2017.

3 Control environment

Our approach to the audit was to identify, confirm and assess the Council's key processes and controls over the underlying information and ultimate production of both the CD and LTP. The purpose of this assessment was to enable us to plan the most effective and efficient audit approach to the audit work needed to provide our two audit opinions. From a review of the self-assessment, SOLGM health check and key controls relating to the underlying information and development of the LTP, we noted that:

- the overall control environment is sound;
- project planning and quality processes are robust;
- financial modelling processes are effective;
- the budgeting/planning processes are thorough; and
- the asset management planning environment is complete.

The Council's quality review process was reflected in the high quality of the draft documents presented for audit.

Due to the nature of the LTP not all controls were able to be tested and therefore we took a more substantive approach. No significant issues were noted during our audit.

4 Areas of audit emphasis

During the planning stage of the audit, and our review of the content of the CD, we identified the following key business risks and issues. In this section of the report, we comment on our findings on those matters.

4.1 Content of the CD

The Council produced a CD that fulfilled its primary purpose of providing an effective basis for public participation in decisions on the content of the LTP. The CD included all the major matters that we expected, provided preferred and alternative options to address these issues and encouraged the community to provide feedback.

4.2 Adopting and auditing the underlying information

The Council prepared and adopted the underlying information necessary to support the CD. These were adopted before the adoption of the CD as required by the Act on 15 February 2018.

4.2.1 Financial Strategy

The Financial Strategy presents the Council's strategic framework, financial principles, work plans, and other key financial matters. The key change around the financial strategy from the 2015-25 LTP is that the Council will now be required to take on external debt. This will be used to fund their capital works of \$157 million and use up to \$50 million of borrowing capacity to help optimise the interest costs incurred by QHL.

With an increase in grants to third parties, an unbalanced operating budget has been projected for four of the ten years. The primary reasons for the unbalanced budget are the already-allocated grants paid from the Regional Infrastructure Fund to third parties being treated as an expense.

The Council believes it is financially prudent to operate an unbalanced budget as they maintain sufficient reserves, generate returns on investments that are greater than the cost of debt. We also note strong cash flows are forecasted and over \$29 million of cash dividends are received from QHL each year.

We are satisfied the unbalanced budget is financially prudent and appropriate supporting documentation was considered in determining the budget. This information has been adequately disclosed in the CD and underlying information.

As per the Local Government Act 2002, a formal resolution will be passed by Council to confirm the financial prudence of forecasted deficits.

Overall the Strategy was consistent with the Council's underlying information and contained the key elements we expected to see.

We believe the current Strategy is financially prudent and compliant with legislative requirements.

4.2.2 Infrastructure Strategy

The Council's Infrastructure Strategy highlights the issues and implications that the Council face over the next 30 years with regard to flood protection and control works. This is the only area where the Council are required to prepare a 30 year strategy plan. This plan highlights the Council's capital works programme, in particular their work around flood damage repairs resulting from the April 2017 floods.

4.2.3 Quality of asset-related forecasting information

We have assessed the Council as low risk for asset management.

The Council's level of service describe the outputs that the Council intends to deliver to meet particular community outcomes. We have performed a review of the Council's asset management plans and consider asset management processes appropriate to meet and support the Council's level of service.

We performed a historical trend analysis of actual spending against forecasted spending. Our trend analysis did not

demonstrate any significant irregularities between forecasted and actual expenditure.

The Council's systems and methodology for establishing data reliability are robust.

4.3 Project management, reporting deadlines and audit progress

The development of the CD and LTP is a significant and complex project and a comprehensive project plan is required for a successful process.

The Council had detailed project plans and timelines for different parts of the LTP, plus overall project plans and timelines. This contributed to the Council being prepared for audit and meeting key LTP deadlines.

4.4 Self-assessment

The Council provided a self-assessment in order to assist our audit planning. Key issues and risks arising from this document were:

- climate change;
- significant growth in passenger transport;
- rivers and drainage flood recovery project;

- funding for third party infrastructure
- emergency management; and
- biosecurity.

These have been further discussed in section 5 below. We are satisfied these have been adequately disclosed in the CD.

5 Other matters arising from the audit

We completed our planned work on the areas detailed in our audit proposal and arrangements letter and identified the following other matters:

5.1 Climate change

A theme throughout the consultation document is the on-going challenges faced by the Council due to the impact of climate change, in particular rising sea levels and the increased frequency and intensity of storm events. Assumptions and challenges associated with climate change have been disclosed within the consultation document. The impact from predicted sea level rise and more intense weather events; and how the Council intends to adapt to climate has been adequately disclosed.

The Council has recognised that climate change presents challenges and impacts on the services they provide. Planning for climate change is a work in progress and some challenging

conversations are still to be had around how the Council respond as a regional community and as a Council.

We are satisfied that this approach is appropriate as the Council has advised the public they will be doing more work to get a better understanding of what is required to address climate change. Climate change has been adequately disclosed in your underlying information; such as, the infrastructure and financial strategies, rivers and drainage AMP and forecasting assumptions. Currently the Council has a Regional Policy Statement which includes provision for the potential impact of climate change. This will be updated as scientific data becomes available.

5.2 Significant growth in passenger transport

In response to population pressures and demographic changes, the Council is planning to increase their levels of service around public transport.

To help fund this, the Council will be consulting on a move towards a 100% targeted rate for public transport in the regions where public transport options are available. The Council will also be working closely with other local Council's to ensure the appropriate infrastructure is in place. This includes; road widening, bus stops and shelters.

The Council's preferred option is that targeted rates will increase for Tauranga, Rotorua, Western Bay and Whakatāne as

more routes and increased frequency of services are provided in these districts. This will provide clearer links to areas where a higher level of service is provided.

We reviewed the Western Bay of Plenty Public Transport Blueprint, prepared by BECA which discussed forecasted changes around future network design, transport demand, future land use and other changes impacting Public Transport in the Western Bay. We ensured the increase in user fees and charges reflected the forecasted increase in passengers, route changes and other associated public transport costs.

We have ensured the changes associated with Passenger Transport have been adequately incorporated in the CD, Financial Strategy and other underlying information.

5.3 Rivers and drainage flood recovery

During April 2017 the Bay of Plenty was impacted by ex-Tropical Cyclone Debbie. This event resulted in damage to the Regional Council's flood protection assets.

The Council is consulting about having the right affordability of rating approaches for these repairs. The Council will be using borrowings to help repair damage to river and drainage systems and make further improvements to the assets.

The consultation point is concerned with whether the Council should increase the target rate significantly to pay for these costs in the first two years of the plan with minimal increases

after that or, as per the Council's preferred option, is to have smaller increases in the targeted rate throughout the entire period of the 10 years.

We confirmed this has been adequately incorporated into the CD, Infrastructure Strategy and Financial Strategy, Rivers and Drainage Asset Management Plan and other underlying information. We have reconciled the key projects in the Asset Management Plan to the financial model and amounts disclosed within the underlying information.

5.4 Funding for third party infrastructure

The Council is proposing to continue funding for third party infrastructure projects that support the region. The Council's preferred option is to use reserves to fund third party infrastructure. Other options proposed include either funding third party infrastructure through both reserves and debt, or alternatively continue funding projects which the Council are committed to; but not funding any further projects outside the Council.

This has been adequately disclosed within the consultation document, infrastructure policy and other underlying information. The financial model demonstrated the forecasted timing of payments from the Regional Infrastructure Fund throughout the term of the LTP including a decrease in the reserves.

5.5 Borrowings

In the past, the Council used reserves and the investment fund to pay for what the Council does. With most of this source of funds having been allocated or spent the Council is now proposing to raise borrowings to pay for capital projects. This will be used to fund various capital works of \$157 million and use up to \$50 million of borrowing capacity to help optimise the interest costs incurred by QHL (see revenue from on Quayside Holdings Limited below).

We agree with the Council that, by using borrowings, this will take inter-generational equity into account.

5.6 Revenue from Quayside Holdings Limited (QHL)

QHL owns 54.14% of the Port of Tauranga Limited as well as other commercial investments for the benefit of the Bay of Plenty. Revenue from QHL is significant and is highlighted in the Financial Strategy. The Council receives 80% of QHL's budgeted cash surplus which represents more than 20% of its total revenue. Over the next 10 years, there will be an increase in dividend revenue from QHL. This dividend revenue will be used by Council to help subsidise rates.

Effective treasury management by QHL and an increase in investments held by QHL is expected to increase the cash surplus of QHL. The Council intends to borrow from the LGFA

and on then on loan the funds to QHL as the Council is forecast to obtain a lower borrowing rate than QHL.

We have ensured the use and transfer of funds between QHL and the Council has been adequately incorporated into the CD, the Financial Strategy, and other underlying information.

5.7 Flow of information between documents

As part of our audit, we reviewed the flow of information from the Asset Management Plan's into underlying forecasts and strategies, and where appropriate, into the CD. Our initial review noted some minor inconsistencies which were discussed with staff and corrected. We also reviewed the base data for inflation adjustments and growth projections.

We are satisfied the source information has flowed appropriately into the forecast model including the assumptions around inflation and growth.

Appendix 1: Mandatory disclosures

Area	Key messages
Our responsibilities in conducting the audit	We carried out this audit on behalf of the Controller and Auditor-General. We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001. The audit of the financial statements does not relieve management or the Council of their responsibilities. Our audit engagement letter contains a detailed explanation of the respective responsibilities of the auditor and the Council.
Auditing standards	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 Council and management are responsible for implementing and maintaining your systems of controls for detecting these matters.
Auditor independence	We are independent of the 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. Other than the audit, we have no relationship with, or interests in, the Council.
Other relationships	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. We are not aware of any situations 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.
Unresolved disagreements	We have no unresolved disagreements with management about matters that individually or in aggregate could be significant to the financial statements. Management has not sought to influence our views on matters relevant to our audit opinion.

