

Audit and Risk Committee

NOTICE IS GIVEN

that the next meeting of the **Audit and Risk Committee** will be held in **Mauao Rooms, Bay of Plenty Regional Council Building, 87 First Avenue, Tauranga** on:

Thursday, 7 March 2019 commencing at 9.30 am.

Fiona McTavish
Chief Executive
27 February 2019



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:	J Cronin
Deputy Chairperson:	D Love
Councillors:	S Crosby, A Tahana, A von Dadelszen
Ex Officio:	Chairman D Leeder
Appointees:	B Robertson
Committee Advisor:	M Pansegrouw

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 the Open**
- 6 Declarations of Conflicts of Interests**
- 7 Previous Minutes**
- 7.1 Audit and Risk Committee Minutes - 28 November 2018** **13**
- 8 Reports**
- 8.1 Committee Chairperson's Report** **21**
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Resolution to exclude the public

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

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 Matter to be Considered	Reason for passing this resolution in relation to this matter	Grounds under Section 48(1) LGOIMA 1987 for passing this resolution
9.1 Public Excluded Audit and Risk Committee Minutes - 28 November 2018	Please refer to the relevant clause in the meeting minutes	Good reason for withholding exists under Section 48(1)(a)
9.2 Key Risk Register Quarterly Update - January to March 2019	To protect this information so it doesn't damage public interest	Good reason for withholding exists under Section 48(1)(a)
9.3 Kopeopeo Canal Remediation Project Update 21	To protect the commercial position of an individual	Good reason for withholding exists under Section 48(1)(a)
9.4 Bus Contract Procurement Review	To protect the commercial position of an individual	Good reason for withholding exists under Section 48(1)(a)

9.1	Public Excluded Audit and Risk Committee Minutes - 28 November 2018	79
9.2	Key Risk Register Quarterly Update - January to March 2019	85
	APPENDIX 1 - Key risk register updates - March 2019	91
	APPENDIX 2 - Key Risk Register - March 2019 - Heat Map Residual Scores	137

9.3 Kopeopeo Canal Remediation Project Update 21	141
APPENDIX 1 - Risk Register - Kopeopeo Canal Contamination Remediation Stage 1 Project	153
9.4 Under Separate Cover: Bus Contract Procurement Review	
Please note this report will follow under separate cover.	
10 Confidential business to be Transferred into the Open	
11 Readmit the Public	
12 Consideration of General Business	

Previous Minutes

Minutes of the Audit and Risk Committee Meeting held in Mauao Rooms, Bay of Plenty Regional Council Building, 87 First Avenue, Tauranga on Wednesday, 28 November 2018 commencing at 9.30 a.m.

Present:

Chairman: J Cronin

Deputy Chairman: D Love

Councillors: S Crosby, A Tahana

Ex Officio: Chairman D Leeder

Appointees: B Robertson

In Attendance: Councillors K Winters, L Thurston; J Nees; Mat Taylor - General Manager, Corporate; Chris Ingle - General Manager, Integrated Catchments; Sarah Omundsen - General Manager, Regulatory; Namouta Poutasi - General Manager, Strategy and Science; Sam Rossiter-Stead - Communications Manager; Annabel Chappell - Te Tuara Manager; Steven Slack - Risk & Assurance Manager; Donna Llewellyn - In-House Legal Counsel; Andy Dixon - Accounting Team Leader; Nic Newman - Principal Advisor; Claire Gordon - Internal Auditor; Rachel Pinn - Programme Leader - Passenger Transport; Merinda Pansegrouw - Committee Advisor.

External presenter: Anton Labuschagne, Audit New Zealand

Apologies: Cr A Von Dadelszen and Cr A Tahana (late arrival)

1 Apologies

Resolved

That the Audit and Risk Committee:

- 1 Accepts the apologies from Councillors Von Dadelszen and Tahana (for lateness) tendered at the meeting.**

**Love/Cronin
CARRIED**

2 Public Forum

Nil

3 **Acceptance of Late Items**

Nil

4 **General Business**

Nil

5 **Confidential Business to be transferred into the Open**

Nil

6 **Declaration of Conflicts of Interest**

Nil

7 **Previous Minutes**

7.1 **Audit and Risk Committee Minutes - 11 September 2018**

Resolved

That the Audit and Risk Committee:

- 1 **Confirms the Audit and Risk Committee Minutes of 11 September 2018 as a true and correct record.**

Love/Cronin
CARRIED

8 **Reports**

8.1 **External Audit: Final Management Report on the audit of the Annual Report for the year ending 30 June 2018**

Accounting Team Leader Andy Dixon presented the report and introduced external auditor Anton Labuschagne from Audit New Zealand (Audit NZ).

Mr Labuschagne outlined the key points of the Audit New Zealand Management Report for the year ending 30 June 2018:

Key Points

- Audit NZ commended Bay of Plenty Regional Council on the unmodified audit opinion and thanked staff for their delivery and assistance during the audit process
- As part of the audit findings a number of recommendations have been highlighted and these had been appropriately actioned by the Bay of Plenty Regional Council
- Since there would be three significant for-profit standards applicable to the Quayside Group for the 2018/19 review, it was recommended that in liaison with the Quayside Group, proactive consideration be given to the early adoption of the new accounting standards.

In Response to Questions

- It was noted that Audit NZ had recommended that all interests be declared and recorded in Interest Registers (Page 43, item 4.4) as searches by Audit NZ of the

Companies Office and the Charities Commission registers had identified a number of interests that had not been declared. Although each member of Council was required to complete an "Interest Register Form", the level of detail to be declared needed to be clarified.

Items for Staff Follow-up

- The level of detail to be declared in "Elected Member's Register of Interests" to be clarified
- In preparation for the 2018/19 audit review, consideration be given to the early adoption of new accounting standards applicable to the Quayside Group.

Resolved

That the Audit and Risk Committee:

- 1 Receives the report, External Audit: Final Management Report on the audit of the Annual Report for the year ending 30 June 2018;**

**Love/Cronin
CARRIED**

8.2 Committee Chairperson's Report

General Manager, Corporate Mat Taylor updated members on the Audit and Risk Committee activities and provided an overview of the work programme for the period November 2018 to September 2019. He informed members of key organisational changes subsequent to the introduction of the new "Fit for Purpose Structure": Annabel Chappell had been appointed as Te Tuara Manager and Steve Slack as Risk & Assurance Manager.

Item for Staff Follow-up

- The external Audit Arrangement Letter for the Audit to 30 June 2019 to preferably be submitted to the Audit and Risk Committee at the meeting scheduled for March 2019.

Resolved

That the Audit and Risk Committee:

- 1 Receives the report, Committee Chairperson's Report.**

**Cronin/Robertson
CARRIED**

9:45 am Cr Tahana **joined** the meeting.

8.3 Legal Services Annual Report & Legislative Compliance

In-House Legal Counsel Donna Llewellyn presented the report outlining an update on the legislative compliance framework and Bay of Plenty Regional Council's legislative compliance during the 2017/18 financial year.

Item for Staff Follow-up

- A copy of the legal advice recently received regarding water provision relevant to modelling in the Upper Kaituna River to be provided to Cr Tahana.

Resolved

That the Audit and Risk Committee under its delegated authority:

- 1 Receives the report, Legal Services Annual Report & Legislative Compliance; and
- 2 Notes the actions taken to progress the legislative compliance framework.

Cronin/Love
CARRIED

8.4 Update on Preparation for CouncilMARK Assessment

Communications Manager Sam Rossiter-Stead provided an update on progress made in preparing for the CouncilMARK assessment process scheduled during the first quarter of 2019.

Resolved

That the Audit and Risk Committee:

- 1 Receives the report, Update on Preparation for CouncilMARK Assessment, and notes the process which is taking place to prepare for the assessment.

Cronin/Crosby
CARRIED

10:30 a.m. - The meeting adjourned.

11:55 a.m. - The meeting reconvened.

8.5 Rangitaiki River Scheme Review (April 2017 Flood Event): Implementation update

Refer PowerPoint Objective ID: zA228615 and tabled item A3078356

Principal Advisor Nic Newman and Engineering Manager Mark Townsend presented the report providing an update on progress made with the implementation of recommendations from the review:

Key Points

- The Evacuation Planning recommendations had been completed: tabled item "Flood Evacuation Protocol Edgecumbe 13 April 2018 Version 1.0" was provided for the information of members
- New monitoring sites were due for installation during November and the College Road stopbank reconstruction had been completed
- Work with Trustpower was ongoing and communication protocols were complete and tested
- Options for the Rangitāiki Floodway upgrade, consistent with the Review recommendations, have had technical analysis along with community engagement and a recommendation would be brought to a future Council meeting
- The report had completed the annual delegation of a monitoring function from Council to the Audit and Risk committee. As a next step it would be recommended

that Council focus on the long term strategic management of flood risk in the region and adaptation to climate change.

Item for Staff Follow-up

- As a final step and to complete the process of implementing the recommendations in the Rangitāiki River Scheme Review, consideration be given to the inclusion of an external peer review of the implementations for inclusion in the Council report due early 2019.

Resolved

That the Audit and Risk Committee:

- 1 Receives the report, Rangitāiki River Scheme Review (April 2017 Flood Event): Implementation update;**
- 2 Notes the significant progress that Council has made on implementation over the previous 12 months;**
- 3 Notes that this report marks the end of the committee's monitoring delegation, with a final report back to Council in early 2019.**

**Cronin/Robertson
CARRIED**

8.6 Internal Audit Status Update 2018/19

Risk & Assurance Manager Steve Slack and Internal Auditor Claire Gordon provided an outline of the report and responded to questions.

Resolved

That the Audit and Risk Committee:

- 1 Receives the report, Internal Audit Status Update 2018/19.**

**Love/Crosby
CARRIED**

8.7 Public Excluded Section

Resolved

Resolution to exclude the public

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

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 Matter to be Considered	Reason for passing this resolution in relation to this matter	Grounds under Section 48(1) LGOIMA 1987 for passing this resolution
9.1 Public Excluded Audit and Risk Committee Minutes – 11 September 2018	Please refer to the relevant clause in the meeting minutes	Good reason for withholding exists under Section 48(1)(a)
9.2 Internal Audit 2018/19 Review Update	To prevent improper gain or advantage	Good reason for withholding exists under Section 48(1)(a)
9.3 Kopeopeo Canal Remediation Project Update 20	To carry out commercial and industrial negotiations	Good reason for withholding exists under Section 48(1)(a)
9.4 Key Risk Register Quarterly Update - October to December 2018	To protect this information so it doesn't damage public interest	Good reason for withholding exists under Section 48(1)(a)

Leeder/Tahana
CARRIED

8.8 Confidential Business to be Transferred into the Open Resolved

That the Audit and Risk Committee:

1. Transfers item 9.2, “Internal Audit 2018/19 Review Update” on page 111 of the Public Excluded Agenda of the Audit & Risk Committee of 28 November 2018, in its entirety, into the open.

Crosby/Love
CARRIED

The meeting closed at 12:47 p.m.

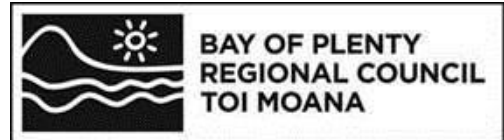
Confirmed

Chairperson, Audit and Risk Committee

Date

Reports

Receives Only – No Decisions



Report To: Audit and Risk Committee

Meeting Date: 07 March 2019

Report From: Mat Taylor, General Manager, Corporate

Committee Chairperson's Report

Executive Summary

This report provides the Committee with an update on Audit and Risk Committee Activities.

Recommendations

That the Audit and Risk Committee:

1 Receives the report, Committee Chairperson's Report;

1 Performance Monitoring Report – Detailed Briefings for Councillors

The first detailed financial briefing for the two months ending 31 August 2018 was held on 21 September 2018.

The second detailed financial briefing for four months ending 31 October 2018 will be held following the conclusion of this Audit and Risk Committee meeting on Wednesday 28 November 2018.

The third detailed financial briefing, for 2018/2019 months 1 – 6, was held on Friday, 8 February 2019.

2 Audit and Risk Work Programme

Appendix 1 shows the Audit and Risk work programme for the period June 2019 to September 2019.

3 Audit and Risk Completed Work Programme

Appendix 2 shows the Audit and Risk completed work programme for the period September 2017 to November 2018.

4 Council's Accountability Framework

4.1 Community Outcomes

This work directly contributes to all Community Outcomes in the council's Long Term Plan 2018-2028.

5 Budget Implications

This work is planned under the Governance Activity in the Long Term Plan 2018-2028.

5.1 Current Year Budget

This work is being undertaken within the current budget for the Governance Activity in Year 1 of the Long Term Plan 2018-2028.

5.2 Future Budget Implications

Future work is provided for in Council's Long Term Plan 2018-2025.

Mat Taylor
General Manager, Corporate

26 February 2019

APPENDIX 1

Audit and Risk Work Programme June 2019 to September 2019

Audit and Risk Committee Programme

June 2019 to September 2019

June 2019 TBC	September 2019 TBC
<ul style="list-style-type: none"> External Audit Interim Management Report for the Year Ended 30 June 2019 	
<ul style="list-style-type: none"> Internal Audit Status Update Internal Audit Work Plan 	<ul style="list-style-type: none"> Internal Audit Status Update Internal Audit Annual Report 2018/19 and Review Update
<ul style="list-style-type: none"> Key Risk Register – Quarterly Update Kopeopeo Canal Contamination Remediation Project Cost & Risk Update 	<ul style="list-style-type: none"> Key Risk Register – Quarterly Update Kopeopeo Canal Contamination Remediation Project Cost & Risk Update
<ul style="list-style-type: none"> Chairperson’s Report (including Work Programme) Council Mark Programme Assessment Review of Performance and Effectiveness of the Audit and Risk Committee 	<ul style="list-style-type: none"> Chairperson’s Report (including Work Programme) Council Chairman’s Discretionary Fund – Annual Report Draft Annual Report Review 2018/19

External Audit	Internal Audit	Risk	Other
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APPENDIX 2

Audit and Risk Completed Work Programme September 2017 to November 2018

***Audit and Risk Completed Work Programme
September 2017 to November 2018***

Meeting date	Report title	Purpose of report
19 September 2017 Committee Meeting	<ul style="list-style-type: none"> External Audit Arrangements Letter for the Audit to 30 June 2017 	To receive Audit New Zealand's audit arrangements letter for audit of the Regional Council's Annual Report for the year ending 30 June 2017
	<ul style="list-style-type: none"> External Audit Interim Audit Management Report for the year ended 30 June 2017 	to receive the Audit New Zealand Interim Management Report for the year ended 30 June 2017
	<ul style="list-style-type: none"> Internal Audit Annual Report 2016/17 and Internal Status Update 2017/18 	Periodic Review
	<ul style="list-style-type: none"> Quarterly Key Risk Report to September 2017 	Periodic Review
	<ul style="list-style-type: none"> Accela Implementation Project Cost and Risk Update 10 	To review the Project Status and associated risks
	<ul style="list-style-type: none"> Kopeopeo Canal Contamination Remediation Project Update 15 	To review the project status and associated risks
	<ul style="list-style-type: none"> 2016/17 Draft Annual Report Review 	To provide the draft 2016/17 Annual Report and Summary to the Audit and Risk Committee.
	<ul style="list-style-type: none"> Chairman's Discretionary Fund 2016/17 	To provide a report on the Chairman's Discretionary Fund expenditure in 2016/17
	<ul style="list-style-type: none"> Regional Council Rates Update 	To review the scope of section 53 of the Local Government (Rating) Act and how Regional Councils work with TA's including agreeing updated agreements, formalising approval processes for rates assessments, penalties and remissions.
	<ul style="list-style-type: none"> Legislative Compliance Review 	This report has been prepared to address concerns of the Audit and Risk Committee raised at the 13 June 2017 meeting

Meeting date	Report title	Purpose of report
19 December 2017 Committee Meeting	<ul style="list-style-type: none"> Committee Chairperson's Report 	To provide the Committee with an update on Audit and Risk activities
	<ul style="list-style-type: none"> Audit Engagement Letter: Audit of the consultation document and Long-Term Plan for the period commencing 1 July 2018 	The purpose of the report is outline the terms of the Audit New Zealand audit of the consultation document and Long Term Plan for the period commencing 1 July 2018
	<ul style="list-style-type: none"> External Audit Management Report for the year ended 30 June 2017 	The purpose of this report is for the Audit and Risk Committee to receive the Audit New Zealand Management Report for the year ended 30 June 2017
	<ul style="list-style-type: none"> Kopeopeo Canal Remediation Project Update 16 	The purpose of the report is to provide an update on the Kopeopeo Canal Remediation project
	<ul style="list-style-type: none"> Internal Audit Status Update 2017/18 	To provide an update of the Internal Audit work program for 2017/18
	<ul style="list-style-type: none"> Quarterly Key Risk Register Update – October to December 2017 	The purpose of this report is to update the Committee on key risks across the organisation

***Audit and Risk Completed Work Programme
September 2017 to November 2018***

Meeting date	Report title	Purpose of report
1 March 2018 Committee Meeting	<ul style="list-style-type: none"> Committee Chairperson's Report 	To provide the Committee with an update on Audit and Risk activities
	<ul style="list-style-type: none"> Key Risk Register – Quarterly Update December 2017 to February 2018 	Periodic review
	<ul style="list-style-type: none"> Internal Audit Status Update 2017/18 	To provide the Committee with an update on the status of internal audit activities
	<ul style="list-style-type: none"> Kopeopeo Canal Remediation Project Update 17 	Receive Update
	<ul style="list-style-type: none"> External Audit Management Report for the Long Term Plan 2018-28 Consultation Document 	Consider external audit management recommendations
	<ul style="list-style-type: none"> Rangitāiki River Scheme Review: Implementation update 	To update on progress Council is making to implement the recommendations contained in the Rangitāiki River Scheme Review

Meeting date	Report title	Purpose of report
12 June 2018 Committee Meeting	<ul style="list-style-type: none"> Committee Chairperson's Report 	To provide the Committee with an update on Audit and Risk activities
	<ul style="list-style-type: none"> Key Risk Register – Quarterly Update March 2017 to May 2018 	Periodic review
	<ul style="list-style-type: none"> Review of Performance and Effectiveness of the Audit and Risk Committee 	To propose a review of the Performance and Effectiveness of the Audit and Risk Committee
	<ul style="list-style-type: none"> Setting of Rates 2018/19 	To review the format of the annual rates setting process
	<ul style="list-style-type: none"> Treasury Framework for Long Term Plan 2018-2028 	Receive Update
	<ul style="list-style-type: none"> Internal Audit Status Update and Proposed Internal Audit Work Plan 2018/19 to 2020/21 	To provide the Committee with an update on the status of internal audit activities and Propose Work plan
	<ul style="list-style-type: none"> Internal Audit Health and Safety Review 	Receive Update
	<ul style="list-style-type: none"> Kopeopeo Canal Remediation Project Update 18 	Receive Update
	<ul style="list-style-type: none"> Kopeopeo Extension West Risk Report 	Receive Update
<ul style="list-style-type: none"> Rangitāiki River Scheme Review (April 2017 Flood Event): Implementation update 	To update on progress Council is making to implement the recommendations contained in the Rangitāiki River Scheme Review	

***Audit and Risk Completed Work Programme
September 2017 to November 2018***

Meeting date	Report title	Purpose of report
11 September 2018 Committee Meeting	• Committee Chairperson's Report	To provide the Committee with an update on Audit and Risk activities
	• 2017/18 Draft Annual Report Review	To provide the draft 2017/18 Annual Report to the Audit and Risk Committee.
	• Key Risk Register – Quarterly Update June 2018 to September 2018	Periodic review
	• Production Forestry Debris Mobilisation Risk for the Bay of Plenty	To update the Audit and Risk Committee on the risk of debris mobilisation from production forests in our region
	• Chairman's Discretionary Fund 2017/18	To provide a report on the Chairman's Discretionary Fund expenditure in 2017/18
	• Rangitāiki River Scheme Review (April 2017 Flood Event): Implementation update	To update on progress Council is making to implement the recommendations contained in the Rangitāiki River Scheme Review
	• External Audit: Final Management Report on the audit of the Long Term Plan 2018-2028	To receive Audit New Zealand's Report on the audit of the Long Term Plan 2018-2028
	• Internal Audit Status Update	To provide the Committee with an update on the status of internal audit activities
	• Internal Audit Annual Report 2017/18 and Review Update	Receive Update
	• Kopeopeo Canal Remediation Project Update 19	Receive Update
• Transport Activities Risks	To update the Committee on the risks to the successful delivery of the Council's Transport Activities	

Meeting date	Report title	Purpose of report
28 November 2018 Committee Meeting	• Committee Chairperson's Report	To provide the Committee with an update on Audit and Risk activities.
	• External Audit: Final Management Report on the audit of the Annual Report for the year ending 30 June 2018	To receive Audit New Zealand final Management Report on the Audit of the audit of the Bay of Plenty Regional Council and Group for the year ending 30 June 2018 (Appendix 1)
	• Legal Services Annual Report & Legislative Compliance	To provide an update on the legislative compliance framework on the Council's legislative compliance during the year.
	• Update on Preparation for CouncilMARK Assessment	To update the Committee on the progress to date in preparing this assessment.
	• Rangitāiki River Scheme Review (April 2017 Flood Event): Implementation update	To update on progress Council is making to implement the recommendations contained in the Rangitāiki River Scheme Review.
	• Internal Audit Status Update 2018/19	To provide the Committee with an update of internal audit activities.
	• Internal Audit 2018/19 Review Update	To provide the Committee with an update internal audit activities.
	• Kopeopeo Canal Remediation Project Update 20	Receive update
• Key Risk Register Quarterly Update – October to December 2018	Periodic Review.	



Receives Only – No Decisions

Report To: Audit and Risk Committee

Meeting Date: 07 March 2019

Report From: Mat Taylor, General Manager, Corporate

Update on Preparation for CouncilMARK Assessment

Executive Summary

Bay of Plenty Regional Council will be assessed through the LGNZ CouncilMARK process in June 2019. The purpose of this report is to update the committee on the progress to date in preparing for this assessment.

Recommendations

That the Audit and Risk Committee:

- 1 Receives the report, Update on Preparation for CouncilMARK Assessment;**

1 Background

CouncilMARK is an LGNZ excellence programme designed to demonstrate and improve the value and services of Councils, by measuring indicators across four priority areas: excellence in governance; leadership and strategy; excellence and transparency in financial decision-making; excellence in service delivery and asset management; and strong engagement with the public and businesses. Participating Councils are assessed by an independent panel of experts every three years and given an overall rating from AAA to C.

The emphasis is on a cycle of continuous improvement, with key improvements made across the four priority areas between assessments.

2 Council's Accountability Framework

2.1 Community Outcomes

This project does not directly contribute to any one particular Community Outcome in the Council's Long Term Plan 2018-2028.

3 Update

3.1 Process

Councils sign up to the CouncilMARK programme voluntarily, which involves two assessments in a three-year period. An extensive self-assessment document, the Performance Assessment Framework (PAF), is completed and submitted to the two independent assessors two weeks prior to the assessment date, along with supporting documentation e.g. plans, strategies and policies.

The on-site assessment takes place over a two-day period, during which meetings take place with elected members, staff and external stakeholders such as business leaders, partner Councils and Iwi.

The independent assessors submit their draft report to an Independent Assessment Board, which moderates their findings and calculates an initial grade between AAA and C. The draft report is then sent to the participating Council for fact checking and a final report and grade are signed off by the board at the conclusion of this process. Assessment reports are released in batches, usually of two or three.

Following the publication of the final report, there is an opportunity for elected members and staff to take part in a workshop with members of the Independent Assessment Board.

3.2 Timings

The key milestones for the programme are as follows:

18 February–26 April	Completion of Draft Performance Assessment Framework (PAF)
8 May	Council Workshop
31 May	Submission of PAF
Mid-June	Two-Day Assessment
Late-October	Release of Final Assessment Report
November	Workshop with Independent Assessment Board

3.3 Background Research

Each of the 24 assessment reports released to date have been studied, with a number of key themes identified. Some of these participating Councils have been approached to share the learnings they have gained from the CouncilMARK process.

As a result we are well-prepared to begin populating our PAF and formulating a draft agenda for the two-day assessment.

The key message coming through from other Councils has been not to shy away from any areas in need of development, but to highlight them alongside plans for

improvement. The Councils who have taken this approach report greater satisfaction levels than those who have adopted a more defensive approach.

3.4 Current Situation

The requirements of the PAF have been closely examined during the past year and a gap analysis process has been undertaken. Several areas for improvement have been identified and remedial actions have been undertaken to mitigate these potential issues. Key to this is the residents' satisfaction survey carried out in the final quarter of 2018, which has provided invaluable data regarding the perception of the work of the council amongst our community.

Work on completing the PAF is now underway by the project team, comprising of staff from the corporate planning and communications teams.

An initial briefing has taken place with the BOPRC Chair, CEO and CouncilMARK Project Manager meeting with Scott Necklen, LGNZ's Deputy Chief Executive Commercial, who oversees the programme.

The clear message from this meeting was that LGNZ's focus is on a cycle of continuous improvement, rather than the grade obtained in the first of the two assessments. The assessors are looking for an authentic and consistent story delivered by elected members, staff and external stakeholders, with areas for improvement clearly identified and development plans both in place and in progress.

3.5 Next Steps

- Completion of the PAF
- Compilation of supporting documentation
- Establishment of a committee to oversee the programme
- Selection of external stakeholders to meet the assessors
- Drafting of an agenda for the two-day on-site assessment
- Finalisation of assessment dates (LGNZ)
- Appointment of independent assessors (LGNZ)

Sam Rossiter-Stead
Communications Manager

for General Manager, Corporate

27 February 2019



Receives Only – No Decisions

Report To: Audit and Risk Committee
Meeting Date: 07 March 2019
Report From: Mat Taylor, General Manager, Corporate

2018/19 External Audit Plan

Executive Summary

The purpose of this report is for the Audit and Risk Committee to receive the draft Audit New Zealand Audit Plan for the audit of Bay of Plenty Regional Council for the year ending 30 June 2019.

The draft Audit Plan is included in Appendix 1 to this report. Audit Director Ben Halford will attend the meeting to discuss the Audit Plan.

Recommendations

That the Audit and Risk Committee:

- 1 Receives the report, 2018/19 External Audit Plan;**
- 2 Notes the draft Audit Plan for the audit of Bay of Plenty Regional Council for the year ending 30 June 2019 (Appendix 1).**

1 Introduction

In February 2019 Audit New Zealand released its draft Audit Plan for the year ending 30 June 2019 (Appendix 1).

The draft Audit Plan presents the audit arrangements and discusses the audit risks and issues, the audit process, reporting protocols and audit logistics.

Audit Director Ben Halford will attend the meeting to discuss the draft Audit Plan.

2 Audit risks and issues

Audit New Zealand has identified the following risks and issues which will be reviewed and tested during their audit:

- Revaluation of property, plant and equipment

- Fair value assessment for property, plant and equipment
- Debt funding
- The risk of management override of internal controls
- Rotorua Te Arawa Lakes Programme
- Regional Infrastructure Fund
- Consolidation of Group Financial Statements
- Fraud risk

3 Group audit

Audit New Zealand's audit approach is to ensure they have sufficient information to give an opinion on the Council Group, which comprises Quayside Group. The draft audit plan discusses the significant audit risks and other areas of focus relating to the audit of the Council Group as a whole.

4 Audit timing

The key dates relating to the 2018/19 external audit are listed below.

8 April 2019	First interim begins
10 June 2019	Second interim begins
28 June 2019	Draft interim management report issued
12 July 2019	Draft interim management report comments received
9 August 2019	Draft financial statements available for audit
12 August 2019	Final audit begins
28 August 2019	Final financial statements available
30 August 2019	Annual Report available for audit, and consolidated accounts
19 September 2019	Verbal audit clearance given
26 September 2019	Audit opinion issued
27 September 2019	Final management report comments received
4 October 2019	Final detailed management report issued

During the audit Council staff will provide Audit New Zealand with all relevant records and the appropriate level of assistance.

5 Budget Implications

This 2018/19 budget for the external audit is \$138,000. This estimated audit fees for the external audit are \$132,165 (2017/18: \$130,599) excluding disbursements.

6 Community Outcomes

This project/proposal directly contributes to the all Community Outcome/s in the Council's Long Term Plan 2018-2028. The work is planned under the Finance and Corporate Planning Activity.

Debbie Hyland
Finance and Corporate Planning Manager

for General Manager, Corporate

25 February 2019

APPENDIX 1

Draft Audit Plan - Bay of Plenty Regional Council for the year ending 30 June 2019

Audit Plan

Bay of Plenty Regional Council

For the year ending 30 June 2019

Audit Plan

I am pleased to present our Audit Plan for the audit of Bay of Plenty Regional Council (the Regional Council) for the year ending 30 June 2019. The purpose of this Audit Plan is to discuss:

Audit risks and issues	2
Group audit	7
Our audit process.....	9
Reporting protocols	13
Audit logistics	14
Expectations.....	16
Appendix 1: Adoption of new accounting standards PBE IFRS 9 Financial Instruments	18

The contents of this Plan should provide a good basis for discussion when we meet with you.

We will be happy to elaborate further on the matters raised in this Plan.

Our work improves the performance of, and the public’s trust in, the public sector. Our role as your auditor is to give an independent opinion on the financial statements and performance information. We also recommend improvements to the internal controls relevant to the audit.

If there are additional matters that you think we should include, or any matters requiring clarification, please discuss these with me.

Yours sincerely

B H Halford
Appointed Auditor
25 February 2019

Audit risks and issues

Focus areas



Based on the planning work and discussions that we have completed to date, we set out in the table below the main audit risks and issues. These will be the main focus areas during the audit.

Issues related to Bay of Plenty Regional Council (Parent)

Audit risk/issue	Our audit response
Revaluation of property, plant and equipment	
<p>The Regional Council periodically revalues its infrastructure assets. PBE IPSAS 17, Property, Plant and Equipment, requires that valuations are conducted with sufficient regularity to ensure that the carrying amount does not differ materially from fair value. This year the Regional Council has revaluations scheduled for Flood Protection and Control, specifically Rivers and Drainage.</p> <p>Due to the nature and value of the revaluations any bias or errors in the inputs used or calculations performed could result in incorrect value for infrastructure assets.</p>	<p>We will:</p> <ul style="list-style-type: none"> • assess relevant controls that management has put in place for the valuation; • obtain an understanding of the underlying data; • evaluate the qualifications, competence and expertise of the external valuer used; and • review the method of valuing the infrastructure assets and assess if the applicable method used is in line with the financial reporting framework, including the reasonableness of the assumptions used.
Fair value assessment for property, plant and equipment	
<p>The accounting standard PBE IPSAS 17 Property, Plant and Equipment, requires that valuations are carried out with sufficient regularity to ensure that the carrying amount does not differ materially from fair value.</p> <p>In line with its accounting policy, the Regional Council last revalued its operational land, operational buildings, maritime, lakes restoration, restricted parks buildings and restricted flood protection assets as at 30 June 2018.</p> <p>The Regional Council will need to complete a fair value assessment as at 30 June 2019 to confirm that its assets are not materially different to that which has been recorded in the general ledger.</p> <p>We will review the fair value assessment for reasonableness.</p>	<p>We will review the Regional Council’s assessment of whether there is any significant difference between the carrying amount and fair value of its assets not being revalued.</p> <p>We encourage the Regional Council to perform this early so that if a revaluation is required, there is time to complete it without it impacting the annual report process.</p>

Audit risk/issue	Our audit response
Debt funding	
<p>The 2018-28 LTP signalled the Regional Council’s intention to draw down on Local Government Funding Agency (LGFA) debt and on-lend a portion of these funds to the Regional Council’s CCO, Quayside Holdings Limited (QHL). It is expected that QHL’s treasury function will be able to generate a return greater than the cost of LGFA debt.</p> <p>The Regional Council has advised us that it will be obtaining advice on how to structure the loan with QHL.</p>	<p>We will follow up as to what the Regional Council is doing to manage the risk pertaining to on-lending debt to generate a return. We will also confirm if any agreement entered into has been adhered to.</p> <p>We will also ensure that this arrangement has been adequately disclosed, in terms of financial and non-financial reporting, in the annual report.</p>
The risk of management override of internal controls	
<p>Management is in a unique position to perpetrate fraud because of management’s ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it results in a risk of material misstatement due to fraud.</p>	<p>Our audit procedures will involve</p> <ul style="list-style-type: none"> • testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; • reviewing accounting estimates for biases and evaluating whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud; and • for any significant transactions that are outside the normal course of business, or that otherwise appear to be unusual given our understanding of the Regional Council and its environment and other information obtained during the audit, we will evaluate whether the business rationale (or the lack thereof) of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets.

Please tell us about any additional matters we should consider, or any specific risks that we have not covered. Additional risks may also emerge during the audit. These risks will be factored into our audit response and our reporting to you.

Other areas of focus



Based on the planning work and discussions that we have completed to date, this table sets out other audit risks and issues.

Issues related to Bay of Plenty Regional Council (Parent)

Audit risk/issue	Our audit response
Rotorua Te Arawa Lakes Programme	
<p>The Regional Council, along with Rotorua Lakes Council and the Ministry for the Environment has established the Lake Rotorua Incentives Board. This is a committee of the Regional Council whose purpose is to oversee the enhancement of the water quality in Rotorua’s lakes. The combination of the terms of reference and delegations policy creates the boundaries within which the Incentives Board operates.</p> <p>The objective of the Lake Rotorua Incentives Board is to achieve a 100 tonne reduction in the discharge of nitrogen into Lake Rotorua. This needs to be achieved within the budget of \$40 million and within the parameters of the Lake Rotorua Incentives Scheme Policy, which was adopted in July 2014.</p>	<p>We will test any payments under this programme to ensure the controls are operating as expected.</p> <p>We will review any disclosures in the Annual Report relating to improving water quality for appropriateness.</p>
Regional Infrastructure Fund	
<p>The Regional Council is funding a significant programme of regional projects through the RIF. Payments to this fund commenced during the 2016/17 period. The four projects the Regional Council has committed to are:</p> <ul style="list-style-type: none"> • the Tauranga marine precinct; • the Tauranga university campus; • Scion research facility; and • Ōpōtiki harbour redevelopment. <p>The funding is subject to certain conditions being met.</p>	<p>For any payments made during the 2018/19 year we will consider whether planned controls were applied consistently to ensure the funds are used for the purpose intended.</p> <p>We will confirm that payments have been correctly accounted for and review any disclosures in the Annual Report relating to the RIF for appropriateness.</p>

Audit risk/issue	Our audit response
Consolidation of Group Financial Statements	
<p>Quayside Holdings Group is a subsidiary of the Regional Council. Adjustments may be required on consolidation to reflect differences in accounting policies between the Quayside Holdings Group and the Regional Council Group.</p> <p>We will obtain an understanding of the Group, its components, and their environments, including group-wide controls.</p> <p>We will ensure all relevant adjustments have been made on consolidation for differences in accounting policies between for-profit NZ IFRS and the public benefit entity IPSAS-based accounting standards.</p>	<p>We will obtain an understanding of the Group, its components, and their environments, including group-wide controls.</p> <p>We will ensure all relevant adjustments have been made on consolidation for differences in accounting policies between for-profit NZ IFRS and the public benefit entity IPSAS-based accounting standards.</p>

Fraud risk

Misstatements in the financial statements and performance information can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action is intentional or unintentional. In considering fraud risk, two types of intentional misstatements are relevant – misstatements resulting from fraudulent reporting, and misstatements resulting from misappropriation of assets.

The primary responsibility for the prevention and detection of fraud and error rests with the Regional Council, with assistance from management. In this regard, we will discuss the following questions with you:

- What role does the Regional Council play in relation to fraud? How do you monitor management's exercise of its responsibilities?
- Has a robust fraud risk assessment been completed? If so, is the Regional Council satisfied that it had appropriate input into this process?
- How does management provide assurance that appropriate internal controls to address fraud risks are in place and operating?
- What protocols/procedures have been established between the Regional Council and management to keep you informed of instances of fraud, either actual, suspected, or alleged?
- Are you aware of any actual, suspected, or alleged fraud? If so, have the results of management's investigation been reported to the Regional Council? Has appropriate action been taken on any lessons learned?

Our responsibility

Our responsibility is to obtain reasonable, but not absolute, assurance that the financial statements and performance information are free from material misstatement resulting from fraud. Our approach to obtaining this assurance is to:

- identify fraud risk factors and evaluate areas of potential risk of material misstatement;
- evaluate the effectiveness of internal controls in mitigating the risks;
- perform substantive audit procedures; and
- remain alert for indications of potential fraud in evaluating audit evidence.

The Auditor-General has published useful information on fraud that can be found at oag.govt.nz/reports/fraud-reports.

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Group audit



The Group comprises:

- Bay of Plenty Regional Council; and
- Quayside Group.

The Quayside Group consists of:

- Quayside Holdings Limited (QHL);
- Quayside Properties Limited (QPL);
- Quayside Securities Limited (QSL);
- Quayside Securities Limited as Trustee for the Quayside Investment Trust (QIT);
- Quayside Securities Limited as Trustee for the Quayside Unit Trust (QUT); and
- Port of Tauranga Limited (POTL).

Our auditor's report covers the Group as a whole. Our audit approach is developed to ensure we have sufficient information to give an opinion on the Group. In designing our Group audit approach, we considered the structure of the Group and identified the entities which are included in the Group financial statements. Each entity is referred to as a component. We have assessed the risks of material misstatement and have identified our approach for each component.

The table below shows the significant audit risks and other areas of focus relevant to each significant component:

Issues related to entities in the Quayside Group (Significant component) (excluding POTL)

Audit risk/issue	Our audit response
Share investments	
<p>Over a period of time all listed shares currently held in the names of QHL and QUT will be transferred to QIT, except for POTL shares.</p> <p>Investment transactions during the period need to be appropriately authorised.</p> <p>All investments held at balance date must be revalued and carried at fair value.</p>	<p>We will review the Board's decisions relating to shareholdings and undertake sample testing to confirm these have been appropriately actioned.</p> <p>We will also test a sample number of listed share transactions to confirm all transactions have been appropriately authorised.</p> <p>We will review year end valuations of investments to ensure that they are recorded at fair value.</p>

Audit risk/issue	Our audit response
Investment property and bearer plants	
<p>QPL annually revalues its bearer plants and investment properties to comply with NZ IAS 16 <i>Property, Plant and Equipment</i> and NZ IAS 40 <i>Investment Property</i>. These standards require those assets to be measured at fair value.</p>	<p>We will review the revaluations to confirm they are appropriate for use in the annual report.</p> <p>We will also confirm that any changes in values due to the revaluations are correctly recognised in the financial statements.</p>
Performance reporting	
<p>The Auditor-General’s statement “AG-4, the audit of service performance reports” applies to our audit of the Quayside Group. This means we will report on:</p> <ul style="list-style-type: none"> • whether or not the service performance report fairly reflects the Quayside Group’s overall performance against objectives it is trying to achieve; and • whether the annual report reflects the Quayside Group’s performance for the year against existing measures in the adopted Statement of Intent. 	<p>We will confirm whether:</p> <ul style="list-style-type: none"> • we are satisfied the non-financial reporting fairly reflects the Quayside Group’s performance over the year; and • all the measures in the 2018/19 Statement of Intent are reported against.
The risk of management override of internal controls	
<p>There is an inherent risk in every organisation of fraud resulting from management override of internal controls.</p> <p>Management are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Auditing standards require us to treat this as a risk on every audit.</p>	<p>Our audit response to this risk includes:</p> <ul style="list-style-type: none"> • testing the appropriateness of selected journal entries; • reviewing accounting estimates for indications of bias; and • evaluating any unusual or one-off transactions, including those with related parties.

For non-significant components, we will perform analytical procedures at the Group level to identify unexpected movements.

We will report any significant internal control deficiencies to the Regional Council and management of the Group. This will include any deficiencies identified by the Group engagement team or brought to our attention by the component auditor. We will communicate deficiencies related to:

- Group-wide internal control; or
- internal controls at each component.

We will also communicate any fraud identified by the Group engagement team or brought to our attention by the component auditor.

Our audit process

Initial planning

Initial planning activities include verifying compliance with independence requirements and building the audit team.

Understand your business and environment

We use our extensive sector and business knowledge to make sure we have a broad and deep understanding of the Regional Council, your business, and the environment you operate in.

Assess audit risk

We use our knowledge of the business, the sector and the environment to identify and assess the risks that could lead to a material misstatement in the financial statements and performance information.

Evaluate internal controls

We update our understanding of internal controls relevant to the audit. This includes reviewing the control environment, risk assessment process, and relevant aspects of information systems controls. Most of this work is done during the initial audit visits. We evaluate internal controls relevant to the audit for the whole financial year, so we consider internal controls relevant to the audit at all visits.

Finalise the audit approach

We use the results of the internal control evaluation to determine how much we can rely on the information produced from your systems during our final audit.

Gather audit evidence

During the final audit we will be auditing the balances, disclosures, and other information included in the Regional Council's financial statements and performance information.

Conclude and report

We will issue our audit report on the financial statements and performance information. We will also report to the Regional Council covering any relevant matters that come to our attention.

Enhancing year-end processes

The year-end financial statement close process and the preparation of the annual report require a large number of resources to be committed to complete them effectively. This diverts the attention of your staff away from the current financial year and focuses them on past events. We want the audit process to run smoothly and we will work with management to achieve this through bringing forward the timing of audit procedures.

Bringing forward audit procedures

Substantive audit procedures are traditionally performed after the year-end. Where possible, we will aim to bring audit procedures earlier in the year. This will be focused on substantively testing operating expenditure, sensitive expenditure, additions and disposals to assets, reviewing any revaluation and/or fair value assessments and, where possible, substantively testing year-to-date transactions for operating expenditure. Completion of these tests earlier in the year should allow for more timely identification and resolution of errors.

If we can complete this work earlier in the year, we expect this to reduce the final audit onsite work as this will have been performed earlier in the year. This requires us to have the right information available during this visit to enable us to complete this work.

We will work with management to facilitate getting the information required at the right time. We will communicate with management if information is not available as agreed, including any impact on the year-end audit.

Materiality

In performing our audit, we apply the concept of materiality. In the public sector, materiality refers to something that if omitted, misstated, or obscured could reasonably be expected to:

- influence readers' overall understanding of the financial statements and performance information; and
- influence readers in making decisions about the stewardship and allocation of resources, or assessing your performance.

This definition of materiality is broader than the one used in the private sector.

Accounting standards also require the Regional Council and management to consider materiality in preparing the financial statements. IFRS Practice Statement 2, *Making Materiality Judgements*, provides guidance on how to make materiality judgements from a financial statements preparer's perspective. Although this guidance is primarily aimed at for-profit entities, the same principles can be applied by public benefit entities.

Whether information is material is a matter of judgement. We consider the nature and size of each item judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor. Materiality will be lower for some items due to their sensitivity.

Misstatements

Misstatements are differences in, or omissions of, amounts and disclosures that may affect a reader's overall understanding of your financial statements and performance information. During the audit, we will provide details of any such misstatements we identify to an appropriate level of management.

We will ask for each misstatement to be corrected, other than those that are clearly trivial. Where management does not wish to correct a misstatement we will seek written representations from representatives of the Regional Council that specify the reasons why the corrections will not be made.

Professional judgement and professional scepticism

Many of the issues that arise in an audit, particularly those involving valuations or assumptions about the future, involve estimates. Estimates are inevitably based on imperfect knowledge or dependent on future events. Many financial statement items involve subjective decisions or a degree of uncertainty. There is an inherent level of uncertainty which cannot be eliminated. These are areas where we must use our experience and skill to reach an opinion on the financial statements and performance information.

The term "opinion" reflects the fact that professional judgement is involved. Our audit report is not a guarantee but rather reflects our professional judgement based on work performed in accordance with established standards.

Auditing standards require us to maintain professional scepticism throughout the audit. Professional scepticism is an attitude that includes a questioning mind and a critical assessment of audit evidence. Professional scepticism is fundamentally a mind-set. A sceptical mind-set drives us to adopt a questioning approach when considering information and in forming conclusions.

Exercising professional scepticism means that we will not accept everything we are told at face value. We will ask you and management to provide evidence to support what you tell us. We will also challenge your judgements and assumptions and weigh them against alternative possibilities.

How we consider compliance with laws and regulations

As part of the Auditor-General's mandate, we consider compliance with laws and regulations that directly affect your financial statements or general accountability. Our audit does not cover all of your requirements to comply with laws and regulations.

Our approach involves first assessing the systems and procedures that you have in place to monitor and manage compliance with laws and regulations relevant to the audit. We may also complete our own checklists. In addition, we will ask you about any non-compliance with laws and regulations that you are aware of. We will evaluate the effect of any such non-compliance on our audit.

Wider public sector considerations

A public sector audit also examines whether:

- Bay of Plenty Regional Council carries out its activities effectively and efficiently;
- waste is occurring or likely to occur as a result of any act or failure to act by Bay of Plenty Regional Council;
- there is any sign or appearance of a lack of probity as a result of any act or omission by Bay of Plenty Regional Council or by one or more of its members, office holders, or employees; and
- there is any sign or appearance of a lack of financial prudence as a result of any act or omission by Bay of Plenty Regional Council or by one or more of its members, office holders, or employees.

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Reporting protocols

Communication with management and the Regional Council



We will meet with management and the Regional Council throughout the audit. We will maintain ongoing, proactive discussion of issues as and when they arise to ensure there are “no surprises”.

Reports to governors



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

We will also follow up on your progress in responding to our previous recommendations.

Audit logistics

Our team



Our engagement team is selected to ensure that we have the right subject matter expertise and sector knowledge. Each member of the audit team has received tailored training to develop their expertise.

Our senior audit team members are:

Ben Halford	Appointed Auditor
David Walker	Engagement Quality Control Review Director
Anton Labuschagne	Audit Manager
Nolene Naude	Assistant Manager (In-Charge)
Robyn Dearlove	Information Systems Audit Manager
Jason Biggins	Tax Director

The Engagement Quality Control Review (EQCR) Director forms an important part of our internal quality assurance process to maintain and enhance the quality of your audit. The EQCR Director is an experienced Audit Director who has sufficient and appropriate experience to objectively evaluate the judgements made by the audit team. They are independent from the day to day audit field work, and so can provide an independent challenge to the audit team on their judgements. The EQCR will work with your Appointed Auditor and the audit team, but will not have direct contact with you.

Timetable



Our proposed timetable is:

First interim audit begins	8 April 2019
Second interim audit begins	10 June 2019
Draft interim management report issued	28 June 2019
Draft interim management comments received	12 July 2019
Draft financial statements available for audit (including notes to the financial statements) with actual year-end figures	9 August 2019
Draft statement of performance reporting available	9 August 2019
Final audit begins	12 August 2019
Final financial statements and statement of service reporting available, incorporating all the amendments agreed to between us	28 August 2019
Annual report available, including any Chair's and Chief Executive's overview or reports	30 August 2019
Consolidated accounts	30 August 2019
Verbal audit clearance given	19 September 2019
Draft final detailed management report issued	19 September 2019
Audit opinion issued	26 September 2019
Final management report comments received	27 September 2019
Final detailed management report issued	4 October 2019

Expectations



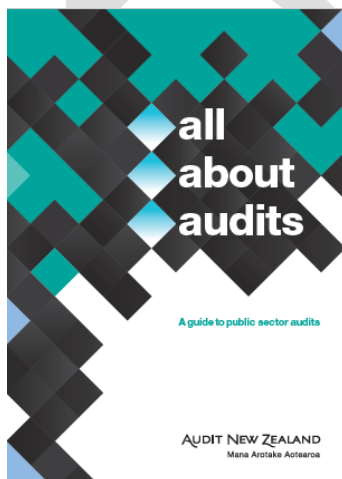
For the audit process to go smoothly for both you and us, there are expectations that each of us need to meet.

Our respective responsibilities are set out in our audit engagement letter.

We expect that:

- you will provide us with access to all relevant records and provide information in a timely manner;
- staff will provide an appropriate level of assistance;
- the draft financial statements, including all relevant disclosures, will be available in accordance with the agreed timetable;
- management will make available a detailed workpaper file supporting the information in the financial statements; and
- the annual report, financial statements and performance information will be subjected to appropriate levels of quality review before being provided to us.

To help you prepare for the audit, we will liaise with management and provide them with a detailed list of the information we will need for the audit. We have also published information to explain what to expect from your audit:



Health and safety



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 management to keep our audit staff safe while they are working at your premises.

We expect you to provide a work environment for our audit staff that minimises or, where possible, eliminates risks to their health and safety. This includes providing adequate lighting and ventilation, suitable desks and chairs, and safety equipment where required. We also expect management 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.

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Appendix 1: Adoption of new accounting standards

PBE IFRS 9 Financial Instruments

Some key facts about PBE IFRS 9:

- Applies to public benefit entities with reporting periods that commence on or after 1 January 2021, with early application permitted.
- Replaces PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*.
- Introduces new criteria for determining whether a financial asset is subsequently measured at fair value (and whether fair value movements are recognised in profit/loss or reserves) or amortised cost.
- For share investments not held for trading, fair value movements are recognised in profit/loss unless an entity makes an irrevocable designation at acquisition to measure the shares at fair value through other comprehensive income.
- The impairment model is based on expected credit losses, meaning credit losses may be recognised earlier than under PBE IPSAS 29. Application of the expected credit loss model may be complex for some entities.
- The hedge accounting requirements have been updated, including changes to hedge effectiveness testing, and hedging with options. However, transition to the new PBE IFRS 9 hedging requirements is currently optional. This means entities have a choice in the meantime to either transition to the new PBE IFRS 9 hedging requirements or continue to apply the PBE IPSAS 29 hedging requirements.
- There are options on whether to adopt PBE IFRS 9 by restating comparatives or adopting from the start of the first year of applying the standard. The transition provisions are complex.
- The disclosure requirements of PBE IFRS 7 have been amended by PBE IFRS 9. These revised disclosures will need to be carefully considered on transition.

Mixed group issues

The Bay of Plenty Regional Council has for-profit entities that are consolidated into the public benefit entity (PBE) group. Consolidation adjustments may be necessary due to the different for-profit and PBE accounting requirements for financial instruments.

We encourage management to discuss these “mixed group” reporting issues with the consolidating entities.

AUDIT NEW ZEALAND

Mana Arotake Aotearoa

PO Box 621, Tauranga 3144

Phone: 04 496 3099

www.auditnz.govt.nz





Report To: Audit and Risk Committee
Meeting Date: 07 March 2019
Report From: Mat Taylor, General Manager, Corporate

Internal Audit Status Update 2018/19

Executive Summary

This report provides an update on the status of year to date internal audit activities and includes the status of internal audit reviews in the current financial year, including the Executive Summary for Asset Management Planning Framework and Maturity Assessment (Appendix 1) and Civil Defence Response Capability (Appendix 2)

The report also provides information on the status of internal audit recommendations and management actions to 31 December 2018.

Recommendations

That the Audit and Risk Committee:

- 1 Receives the report, Internal Audit Status Update 2018/19.**
- 2 Notes that it has received the Executive Summary of the completed internal audit reviews - Asset Management Planning Framework and Maturity Assessment (Appendix 1) and Civil Defence Response Capability (Appendix 2)**

1 Introduction and Context

This report provides the quarterly update on internal audit activity undertaken by Internal Audit staff and external internal audit specialists, KPMG, as part of the Bay of Plenty Regional Councils co-sourced internal audit approach. It includes:

- Status of internal audit reviews in the current year:
- Summary of completed reviews;
- Status of internal audit recommendations and management actions to 31 December 2018.

2 Internal Audit Work Plan Status

On 12 June 2018, the Audit and Risk Committee approved the Internal Audit Work Plan for the three years to 2020/21, including the detailed internal audit work plan for 2018/19.

Since the last update, on 28 November 2019, two reviews have been completed, Asset Management Planning Framework and Maturity Assessment and Civil Defence Response Capability. The following table summarises the status of internal audit reviews for 2018/19.

Review	Field work	GM Sponsor	Status	Status of Internal Audit				
				Planning /Scope	Fieldwork	Draft Report	Mgmt Actions	Final Report
Maritime Disaster Preparedness	BOPRC	Regulatory Services	Complete	Complete	Complete	Complete	Complete	Complete
Civil Defence Response Capability	BOPRC	Regulatory Services	Complete	Complete	Complete	Complete	Complete	Complete
Asset Management Planning	KPMG	Corporate	Complete	Complete	Complete	Complete	Complete	Complete
Procurement	BOPRC	Corporate	In Progress	Complete	Complete	In Progress		
Contract Management	BOPRC	Corporate						
Rates	BOPRC	Corporate	In Progress	Complete	In Progress			
Budgeting and Monitoring	BOPRC or KPMG	Corporate	In Progress	In Progress				
Fraud Risk Assessment	KPMG	Corporate	Scheduled					
Performance Management	BOPRC	Corporate	Under Review					

Changes to the 2018/19 Work Plan, from that approved on 12 June 2018 are:

- The Procurement and Contracts Management reviews were combined into a single review to minimize business disruption and increase efficiency, the fieldwork for the both reviews has been completed with the reporting to be combined.
- The Performance Management review is currently being discussed with the external auditors as auditing the Performance Measurement KPI's forms part of their external audit report. To avoid duplication we have requested information on the scope of their review to determine whether any value would be added by a BOPRC internal audit review.

3 Completed Internal Audit Reviews

Since the Audit and Risk Committee meeting in November 2018, KPMG has completed the Asset Management Planning Framework review and BOPRC Internal Audit team has completed the Civil Defence Response Capability review.

Asset Management Planning Framework Review

The Asset Management Planning Framework and Maturity Assessment review which focused on assessing the adequacy and effectiveness of BOPRC’s framework to manage and monitor key assets and its maturity.

The Executive Summary for this review has been included as Appendix 1.

The review result was rated ‘Developing’ under Institute of Asset Management’s rating scale:

Scale	Description	Definition	Maturity characteristics
0	Innocent	The organisation has not recognised the need for this requirement and/or there is no evidence of commitment to put it in place.	
1	Aware	The organisation has identified the need for this requirement, and there is evidence of intent to progress it.	Proposals are under development and some requirements may be in place. Processes are poorly controlled, reactive and performance is unpredictable.
2	Developing	The organisation has identified the means of systematically and consistently achieving the requirements, and can demonstrate that these are being progressed with credible and resourced plans in place.	Notes: this is a 'transition state' Processes are planned, documented (where necessary), applied and controlled at a local level or within functional departments; often in a reactive mode but could achieve expected results on a repeatable basis. The processes are insufficiently integrated, with limited consistency or coordination across the organisation.
3	Competent	The organisation can demonstrate that it systematically and consistently achieves relevant requirements set out in ISO 55001.	This involves a formal documented Asset Management system embedded within the organisation. The performance of the Asset Management system elements is measured, reviewed and continually improved to achieve the Asset Management objectives.
4	Optimizing	The organisation can demonstrate that it is systematically and consistently optimizing its Asset Management practice, in line with the organisation’s objectives and operating context.	Notes: this is 2nd 'transition state'. Characteristics of being in this stage will include:
5	Excellent	The organisation can demonstrate that it employs the leading practices, and achieves maximum value from the management of its assets, in line with the organisation’s objectives and operating context.	This is a dynamic and context-sensitive state, so the evidence must include demonstration of awareness of benchmarking positions against similar best in class organisations and that, in both Asset Management practices, and Asset Management results (value realisation) there are no known improvements that have not already been implemented.

In addition to the rating KPMG identified good practices, particularly:

- Areas of excellent asset management practices
- Significant work undertaken by Rivers and Drainage teams in particular, establishing great foundation to asset management planning, and new initiatives enabling improved decision making and value realization
- Genuine desire for further improvement within individual portfolios.

Civil Defence Response Capability Review

The Civil Defence Response Capability Review focused on gaining assurance over the mitigating actions and controls described in the key risk register.

The Executive Summary for this review has been included as Appendix 2.

The review result was rated ‘Adequate’ under the current rating scale:

Rating	Definition
Adequate	Adequate level of controls, however some control weaknesses were identified
Developing	Control weaknesses were identified which if not addressed, could result in the future in the audited business processes not achieving their control objectives
Not Adequate	Existing controls are considered inadequate and ineffective. Significant improvements are required

In addition to the rating we identified good practices and processes within the Civil Defence functions, particularly:

- A thorough tracking spreadsheet that is updated regularly;
- Comprehensive reporting against KPI’s
- An openness of staff to provide their knowledge and time to contribute to the review.

The Internal Audit Charter set out the process for management to respond to the findings and recommendations of internal audit reviews. As with previous reviews, management have developed actions in response to the findings and recommendations, which have been incorporated into the internal audit report.

4 Internal Audit Follow Up

Internal Audit has reviewed all open management actions as part of the follow up work in the 2018/19 Work Plan. At the start of the quarter (1 October 2018) there were 56 open management actions.

During the quarter no new actions were added, and seventeen actions were closed. The total of actions open as at 31 December 2018 is 39, the majority of these relate to Grants (sixteen).

Grants – Internal Audit is comfortable with the progress. All actions are due to be complete by end of the financial year. A piece of work, run by a Steering Group, has been undertaken to relook at how Accela is being used by the Land Management teams, and if there are better ways of working. The Steering Group are actively considering the audit actions as they progress this piece of work.

Of the open actions 13 are past their original due date. The overdue actions relate predominately to Legislative Compliance Framework (nine)

Legislative Compliance – With the newly formed Risk and Assurance team, we have established a project plan with the legal team to implement solutions to these actions.

Steven Slack
Risk & Assurance Manager

for General Manager, Corporate

26 February 2019

APPENDIX 1

Internal Audit - Asset Management Planning

Executive Summary 1 of Internal Audit Reports Issued as at 7 March 2019

Asset Management Planning Framework & Maturity Assessment

Background

As part of the 2018/19 Internal Audit Work Plan, KPMG performed a review and maturity assessment of the Asset Management Planning Framework.

Asset management allows Bay of Plenty Regional Council (BOPRC) to manage their physical assets, performance and maintenance expenditures, and the associated risks over assets lifecycles. Asset management planning specifies the activities, resources and timescales required to achieve objectives set out in a strategic asset management plan and therefore plays an integral role in the overall asset management of BOPRC. The Council has the five key asset management plans in place to manage assets through their lifecycles, these are listed in the scope section below.

A number of local government organisations use the IIMM (International Infrastructure Management Manual) Guidelines for Asset Management Maturity and ISO 55000:2014 - Asset Management as guiding principles for asset management planning.

Objective and Scope

The overall objective of this Internal Audit was to assess the adequacy and effectiveness of BOPRC's framework to manage and monitor key assets and its maturity, and to provide recommendations for improvement where opportunities are identified.

The scope of the review was to assess BOPRC's asset management planning framework and the related processes BOPRC has in place to ensure effective and efficient asset management.

The following portfolios were included for assessment:

1. Rivers and Drainage Asset Management Plan
2. Regional Parks Asset Management Plan
3. Rotorua Lakes Asset Management Plan
4. Maritime Operations Management Plan
5. Property Asset Management Plan

BOPRC's asset management planning framework design was assessed against the following best practice guidelines:

- IIMM Guidelines for Asset Management Maturity;
- ISO 55000; and
- Other best practice asset management guidelines relevant to specific risk exposures for BOPRC.

Out of scope

The review did not include a detailed assessment of the robustness or implementation of the individual asset management plans. Best practice recommendations will be provided specifically to the context of BOPRC by comparison to similar organisations, but there was no attempt to grade the performance of BORPC against other local government organisations.

Key Strengths

Across the organisation, in relation to asset management processes, KPMG identified good practices including:

- Areas of excellent asset management practices
- Significant work undertaken by Rivers and Drainage teams in particular, establishing great foundation to asset management planning, and new initiatives enabling improved decision making and value realization.
- Genuine desire for further improvement within individual portfolios

Overall Rating

Based on the results of the review, Asset Management processes have been rated as Developing.

Overall Rating	Developing
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The overall rating is based on KPMG's assessment that there were some control deficiencies identified, largely as a result of a legacy bottom-up approach to Asset Management, driven from individual portfolios without top-down group level co-ordination or support.

Key Findings/Observations

BOPRC controls were rated as Medium Risk in five areas. The ratings are shown in the table:

#	Finding	Rating
1	Asset Management Leadership: Establish an active group level leadership to create the appropriate conditions for well-defined and fully embedded asset management.	Medium
2	Strategic level Asset Management Plan (SAMP): Establish a single, BOPRC wide, strategic level SAMP to sit above the portfolio level AMPs.	Medium
3	Develop consistent level of service statements and / or performance measures which connect well with BOPRC's corporate objectives.	Medium
4	Improve the clarity of decision making processes and evidence details of trade-off in risk, cost and level of service in investment decisions.	Medium
5	Reporting, Risk and Review: Improve communication of asset risks from portfolio to group level.	Medium

Acknowledgement

We would like to thank the teams we engaged with their cooperation during the course of the review.

APPENDIX 2

Internal Audit - Civil Defence Response Capability

Executive Summary 2 of Internal Audit Reports Issued as at 7 March 2019

Civil Defence Response Capability

Background

As part of the updated Internal Audit Work Plan, Internal Audit performed a review of Mitigation Actions and Controls with respect to the Civil Defence Response Capability.

Civil Defence capability could have wide ranging impacts from the ability to warn the community, manage and mitigate the impacts on a community and the speed quality of recovery from an emergency.

BOPRC will also be judged in the media on its quality of the response to such an event, along with the robustness of its preventative actions.

The key risk identified in the 2018 risk register is:

‘Insufficient suitably trained staff in key response roles to manage a sustained response in a Civil Defence Emergency.’

Objective and Scope

The overall objective of this Internal Audit was to assess the adequacy and effectiveness of processes and controls in place to mitigate key risks in relation to Civil Defence Response Capability.

The review focused on the procedures carried out by BOPRC and the CDEM function. The key points we will review were:

- I. Ensuring that key regional council staff to fill key management roles in a response have been identified and trained to a sufficient level.
- II. Ensuring all key management and alternate roles have been allocated, and that there is a system to ensure this is updated regularly.
- III. Determine whether EOC foundation training has been delivered supported by participation in an exercise or real event in the last two years, including how this is recorded and monitored.
- IV. Understanding the status of the National training framework development.

Key Strengths

Within the CDEM function we identified good practices and controls operating effectively including:

- A thorough tracking spreadsheet that is updated regularly,
- Comprehensive reporting against KPI's,
- An openness of staff to provide their knowledge and time to contribute to the review

Overall Rating

Based on the results of the review, we have rated the control environment relating to Civil Defence Response Capability as Adequate.

Overall Rating	Adequate
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The overall rating is based on our assessment that the mitigating actions with respect to the risk were in place and operating effectively.

Acknowledgement

We would like to thank the CDEM team for their cooperation during the course of the review.

