

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:

Wednesday, 28 November 2018 commencing at 9.30 am.

Fiona McTavish
Chief Executive
20 November 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:	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 - 11 September 2018** **13**
- 8 Reports**
- 8.1 External Audit: Final Management Report on the audit of the Annual Report for the year ending 30 June 2018** **25**
 - APPENDIX 1 - 2018-11 Audit New Zealand - Final report on the audit of Bay of Plenty Regional Council for the year ended 30 June 2018 29
- 8.2 Committee Chairperson's Report** **63**
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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 - 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)

9.1	Public Excluded Audit and Risk Committee Minutes - 11 September 2018	107
9.2	Internal Audit 2018/19 Review Update	111
	APPENDIX 1 - Internal Audit - Maritime Disaster Preparedness - CONFIDENTIAL	115
9.3	Kopeopeo Canal Remediation Project Update 20	119

9.4 Key Risk Register Quarterly Update - October to December 2018	127
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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 Tuesday, 11 September 2018 commencing at 9.30 a.m.

Present:

Chairman: John Cronin

Deputy Chairman: David Love

Councillors: Andrew von Dadelszen

Ex Officio: Chairman Doug Leeder

Appointees: Bruce Robertson

In Attendance: Councillor Kevin Winters, Fiona McTavish - Chief Executive; Mat Taylor - General Manager, Corporate; Chris Ingle - General Manager, Integrated Catchments; Sarah Omundsen - Acting General Manager, Regulatory; Namouta Poutasi - Acting General Manager, Strategy and Science; Debbie Hyland - Finance and Corporate Planning Manager; Nic Newman - Principal Advisor; Simon Stokes – Eastern Catchments Manager; Alex Miller – Compliance Manager: Primary Industry & Enforcement; Garry Maloney – Transport Policy Manager; Steven Slack - Principal Internal Auditor; Claire Gordon - Internal Auditor; Annabel Chappell - Property Manager; Merinda Pansegrouw - Committee Advisor.

Apologies: Councillors Arapeta Tahana and Stuart Crosby

1 Apologies

Resolved

That the Audit and Risk Committee:

- 1 Accepts the apologies from Councillors Arapeta Tahana and Stuart Crosby tendered at the meeting.**

**Cronin/Von Dadelszen
CARRIED**

2 Public Forum

Nil

3 Acceptance of Late Items

Tabled item 1, *Review of the proposed amendment to the Chief Executive's Financial Delegation*, was not considered by the Audit and Risk Committee. It was noted that the item would be considered by the Regional Council at its meeting scheduled on 27 September 2018.

4 General Business

Nil

5 Confidential Business to be Transferred into the Open

Nil

6 Declaration of Conflicts of Interest

Councillor Love noted his membership of the Ōpōtiki District Council Audit and Risk Committee.

7 Previous Minutes

7.1 Audit and Risk Committee Minutes - 12 June 2018

Resolved

That the Audit and Risk Committee:

- 1 Confirms the Audit and Risk Committee Minutes - 12 June 2018 as a true and correct record.

Love/Von Dadelszen
CARRIED

8 Reports

8.1 Committee Chairperson's Report

General Manager, Corporate Mat Taylor provided an outline of the report.

Item for Staff Follow-up

- To reschedule the first monthly financial monitoring meeting (detailed financial briefing) for 2018/19 that had been arranged for the 21st September 2018.

Resolved

That the Audit and Risk Committee:

- 1 **Receives the report, Committee Chairperson's Report;**
- 2 **Notes the Committee's completed and forward looking work programme for the period September 2018 to June 2019.**

**Cronin/Love
CARRIED**

8.2 **Chairman's Discretionary Fund 2017/18**

General Manager, Corporate Mat Taylor outlined the two funding requests accepted by the Fund during the 2017/18 financial year and noted that the two recipients, Rotorua Lakes Council Mayoral Speaker Forum and Rangitāiki Community Board Edgcombe Community Planting Day, received a total of \$7,000 between them.

Key Points

- Noted that the expenditure for 2017/18 was well under the budgeted amount
- Financial assistance was limited to \$5000 per organisation, however, in exceptional circumstances, to be determined jointly by the Chairman and Chief Executive, the rules of the Fund allowed for funding to be provided to organisations above the \$5,000 limit.

Resolved

That the Audit and Risk Committee:

- 1 **Receives the report, Chairman's Discretionary Fund 2017/18.**

**Von Dadelszen/Love
CARRIED**

8.3 **External Audit: Final Management Report on the audit of the Long Term Plan 2018-2028**

Finance and Corporate Planning Manager Debbie Hyland presented the report outlining the following:

Key Points

- On 5 July 2018, Audit New Zealand had released its final report on the audit of the Bay of Plenty Regional Council's Long Term Plan (LTP) for the period 1 July 2018 to 30 June 2028
- There had been no recommendations for improvements in the report and Audit New Zealand had commented that they were pleased to report that overall the Regional Council had created an effective LTP which reflected the key decisions made for the next 10 years of the plan
- There were no recommendations for improvements highlighted in the management report.

Key Points – Members

- The outcome of the final management report on the audit of the Long Term Plan 2018-2028 compiled by Audit New Zealand reflected greatly on all staff members across the organisation. Staff members were congratulated and thanked for their hard work and valuable input

- Noted that this had been the first meeting of the Audit and Risk Committee which Audit New Zealand had not attended to present their final management report. This level of trust represented a further accolade to staff members.

Resolved

That the Audit and Risk Committee:

- 1 **Receives the report, External Audit: Final Management Report on the audit of the Long Term Plan 2018-2028;**

Love/Von Dadelszen
CARRIED

8.4 2017/2018 Draft Annual Report Review

Refer PowerPoint Objective ID: zA228615

Finance and Corporate Planning Manager Debbie Hyland provided an overview of the report, supported by a PowerPoint Presentation outlining the following:

Key Points

- Financial Performance Highlights
 - The Council's 2017/18 draft operating deficit was \$18.0m, compared to a budgeted deficit of \$26.7m, a variation of \$8.7m
 - Draft capital expenditure was \$36.5m, \$ 6.9m less than the budget
 - Recorded a draft operating surplus of \$74.9m, an increase of \$12.5m from the previous year
 - Had budgeted for \$98.1m in operating revenue and received \$100.4m; \$2.3m more than budget
 - Had budgeted for \$124.8m in operating expenditure and spent \$118.3m; \$6.5m less than budget
 - Had spent \$36.5m on capital expenditure compared to a budget of \$43.4m; \$6.9m less than budget
- Non-Financial Performance
 - Reported on 46 Key Performance Indicators (KPIs) and achieved 40, which represented an 87% success rate for the year
 - In comparison, for 2016/17 Council reported on 44 KPIs and achieved 36 – an 82% success rate
 - KPIs not achieved came from the following activities: Tauranga Harbour, Rotorua Lakes, Rotorua Air Quality, Resource Consents and Passenger Transport
- Next steps
 - Final Annual Report and Summary to be presented for adoption by Council on 27 September 2018.

Key Points – Members

- Noted that for projects that were not fully delivered in 2017/18 as originally planned, budgets would be proposed to be carried-forward to 2018/19, or later
- Issues listed to be reviewed in the draft Annual Report:
 - Page 32 – Rotorua Lakes Activity Financial Statement
 - With reference to the 13% target reduction in nitrogen entering the Lake Rotorua catchment that has not been achieved and the 30 tonnes of nitrogen calculated, a comment to be added to provide a breakdown in terms of the types of interventions such as 20 tonnes incentive scheme, 10 tonnes gorse

- Page 61 – Resource Regulation and Monitoring Group of Activities – Rotorua Air Quality Activity
 - One of the three main objectives of this activity was to convert approximately 7,650 solid fuel burners to clean heat appliances. A comment to be included to demonstrate progress and show the number of solid fuel burners that had been converted to date
- Page 64 – Biosecurity Activity wallabies
 - Wallaby Management: Control work at Kaharoa having reduced the “number to one wallaby” should be replaced to state a “99% reduction in wallaby numbers” in Kaharoa
- Page 66 – Rotorua Air Quality Activity
 - A note to be added that the target of “a maximum of 3 exceedances” was a standard that had been set by national government (NESAQ standard to be expanded on in the table)
- Page 70 – Resource Consents Activity
 - An explanatory note to be added to clarify why only 55% of contents during the period were processed within the required statutory timeframe. (To note challenges such as staffing, numbers, complexity and a major new programme (Accela) being introduced, but also acknowledging the improved processing times as a result of new processes effective 1 July).

Item for Staff Follow-up

- The 2017/2018 Draft Annual Report to be reviewed to include the suggestions raised by members of the Audit and Risk Committee in preparation of the proposed final for adoption by Council on the 27 September 2018.

Resolved

That the Audit and Risk Committee:

- 1 Receives the report, 2017/18 Draft Annual Report Review;**
- 2 Notes the audit of the Council for the year ending 30 June 2018 is in progress and that staff expect verbal audit clearance from Audit New Zealand prior to the Council meeting on 27 September 2018.**
- 3 Reviews and endorses the Draft Annual Report and Draft Annual Report Summary for the year ending 30 June 2018, for adoption by Council on the 27 September 2018.**

**Love/Cronin
CARRIED**

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

General Manager, Integrated Catchments Chris Ingle and Principal Advisor Nic Newman presented the report and responded to questions.

In response to Questions

- Noted that the “next period” referred to in the executive summary represented the period hence forth until the next Audit and Risk Committee meeting scheduled for 28 November 2018
- The results of the analysis of the geotechnical investigation on the concrete floodwalls on the Rangitāiki were still underway

- The Rangitāiki Stopbank Erosion / Cardno report was anticipated to be completed in the 4th quarter of 2018. The final completion date was March 2019.

Items for Staff Follow-up

- To provide committee members with an update on progress made with flood evacuation protocols for all other major flood schemes, particularly Whakatāne
- With reference to pages 62 to 63 of the “Cross reference of progress by recommendation” – under the “Implementation Progress” column, the statement “*This is best engineering practice that is already followed. Refer to Stopbank Guidelines 2014.*” to be elaborated on in future reports
- Page 63 (Review the Lake Matahina Flood Management Plan) – under the “Implementation Progress” column, recommendation O: the statement “*This is not being pursued at this time*” to be elaborated on to provide the relevant reasons
- At the next meeting of the Audit and Risk Committee scheduled for 28 November 2018, the report to provide guidance on the merits/necessity for future reports on the subject matter to be submitted to the Audit and Risk Committee beyond 2018.

Resolved

That the Audit and Risk Committee:

- 1 Receives the report, Rangitāiki River Scheme Review (April 2017 Flood Event): Implementation update;**
- 2 Notes the work underway to ensure an integrated response across Council and the progress that is being in response to the recommendations.**

Love/Von Dadelszen
CARRIED

8.6 Production Forestry Debris Mobilisation Risk for the Bay of Plenty

Refer PowerPoint Objective ID: A2958129

Acting General Manager, Regulatory Sarah Omundsen, Eastern Catchment Manager Simon Stokes and Compliance Manager – Primary Industry & Enforcement Alex Miller presented the report supported by a PowerPoint Presentation.

Key Points

- The extent of the risk in relation to the extensive productive forest estate across the region was that Council was vulnerable at all locations
- Whilst the vulnerability to the risk existed virtually at all sites, the degree of risk escalated with landscape type, particularly slopes over 25 degrees, harvest management, forest economics, and if any community or community infrastructure was downstream
- There was the potential to lower the risk with mitigating actions and controls
- The National Environmental Standards for Plantation Forestry Regulations 2017 (NESPF) which came into force on 1 May 2018, provided a nationally consistent set of provisions to manage the environmental effects of plantation forestry activities.

Key Points – Members

- Noted that with the likelihood of a catastrophic event being so low, the recommendation was to accept the current risk score of ten. However, since the

risk could be potentially lowered to five through implementing a number of actions and controls, in association with the forestry sector, every endeavour should be made to lower the score to a five

- Staff to be conscious that the cleaning of beaches from deposited debris was not a function of the Bay of Plenty Regional Council.

Items for Staff Follow-up

- The following information to be forwarded to staff at the Transport Policy Department to assist with planning (Paragraph 2 under Background): *“Forestry and wood processing are a key industry in the Bay of Plenty, contributing about 10% of the regional GDP annually (approx. \$1,000,000,000). In the next ten years, the log harvest in the region is forecast to increase between 3 and 5 million cubic metres per annum, which would constitute a significant increase in associated harvest operations”*
- There was a vital need to be proactive in terms of management practices relevant to the replanting of forests as this could potentially create added risk (example cited was the estimated 8,000 tonnes of forestry debris at Matahina Dam). Further mitigation options should be considered/investigated by staff and future work programmes to be submitted to the appropriate committees.

Resolved

That the Audit and Risk Committee:

- 1 Receives the report, Production Forestry Debris Mobilisation Risk for the Bay of Plenty;**
- 2 Agrees that the Production Forestry Debris Mobilisation risk (Appendix 1) is added to the Key Risk Register;**
- 3 Accepts the current risk score of ten (significant) for the Production Forestry Debris Mobilisation risk;**
- 4 Notes the future actions and controls that have been identified which could further reduce the risk of production forestry debris mobilisation.**

**Cronin/Love
CARRIED**

10:39 a.m. - The meeting **adjourned**.

11:05 a.m. - The meeting **reconvened**.

8.7 Transport Activities Risks

Acting General Manager Strategy & Science Namouta Poutasi and Transport Policy Manager Garry Maloney presented the report and responded to questions.

Key Points – Members

- Delivery of an effective public transport system would require a partnership approach and greater collaboration involving all partner authorities and agencies

- Mitigation actions listed in the risk register should focus on encouraging cultural/behavioural changes and should further demonstrate how these behavioural changes would be achieved.

Resolved

That the Audit and Risk Committee:

- 1 Receives the report, Transport Activities Risks.**
- 2 Notes the strategic risks for Partnerships/Relationships, Meeting Expectations and Health and Safety currently contained in the Council's Key Risk Register which apply to the Transport Activities.**
- 3 Approves the inclusion of the Bus patronage and Transport Planning risks as new risks on Council's Key Risk Register.**
- 4 Accepts the current risk score of 9 (Significant) for the Bus patronage risk.**
- 5 Accepts the current risk score of 12 (Significant) for the Regional Transport Planning risk.**

**Von Dadelszen/Cronin
CARRIED**

8.8 Internal Audit Status Update

Principal Internal Auditor 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;**

**Cronin/Love
CARRIED**

8.9 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 - 12 June 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 Annual Report 2017/18 and 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 19	To protect the commercial position of an individual	Good reason for withholding exists under Section 48(1)(a)
9.4 Key Risk Register Quarterly Update - June 2018 to September 2018	To protect measures that may prevent or mitigate material loss	Good reason for withholding exists under Section 48(1)(a)

Von Dadelszen/Love
CARRIED

8.10 Confidential Business to be Transferred into the Open

Nil

The meeting closed at 12:22 p.m.

Confirmed

Chairperson, Audit and Risk Committee

Date

Reports



Receives Only – No Decisions

Report To: Audit and Risk Committee

Meeting Date: 28 November 2018

Report From: Mat Taylor, General Manager, Corporate Performance

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

Executive Summary

The purpose of this report is for the Audit and Risk Committee to receive the Audit New Zealand final management report on the audit of the Bay of Plenty Regional Council and Group for the year ending 30 June 2018 (Appendix 1).

The Audit New Zealand Management report is based on a review carried out in August and September 2018 in respect of Council activity for the 2017/18 financial year.

The report provides recommendations and prioritises them as urgent, necessary or beneficial. There were no recommendations prioritised as urgent, and there were five recommendations prioritised as necessary.

Recommendations

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;**

1 Introduction

On 27 September 2018 Audit New Zealand issued an unmodified audit opinion and subsequently released the draft audit management report on Bay of Plenty Regional Council and Group for the year ended 30 June 2018. The report sets out the findings from the final audit including areas where the Council is performing well, and recommends a number of areas for improvement around the Council's control environment. Staff responded by seeking further clarification on the findings, investigating any issues, and providing feedback to Audit New Zealand as required.

The attached final management report includes responses from Council where required. This report should be read in conjunction with the Audit New Zealand report to the Council on the interim audit, dated 5 June 2018.

2 Findings from the Audit

Audit New Zealand performed a high level assessment of the Council's control environment and reviewed the internal controls in place for key financial and non-financial information systems.

In their key message Audit New Zealand commented that "a good draft annual report was available at the start of the audit and all queries raised through our audit work were addressed as a priority. We commend the Council for their delivery during the audit process".

Audit New Zealand did not note any recommendations prioritised as "urgent" or "beneficial" however they prioritised five recommendations as "necessary". These are discussed further in the report.

3 Necessary recommendations

The following recommendations have been made as part of the audit findings.

3.1 Property, plant and equipment valuation – process improvements and policy compliance (Section 4.1 and 4.2, page 11)

Audit New Zealand recommends that Council:

- Implement systems for processing asset revaluations in the accounting system, to ensure all assets to be revalued are accounted for;
- Revaluations are performed with sufficient regularity, and in line with the Council's accounting policy, to ensure the carrying value of an asset does not differ materially from its fair value.

Action taken

Staff have updated the business processes to include additional controls around asset revaluations and fair value assessments; as well as additional technical training for staff involved in asset accounting.

3.2 Treatment of GST on land purchases (section 4.3 page 12)

Audit New Zealand recommend that land purchases and sales of land are reviewed to ensure the appropriate treatment of GST is applied and accounted for, especially in instances where the other party is a non-registered person.

Action taken

As part of the August 2018 GST claim, staff claimed the input tax credit relating to land purchases. Additionally staff will seek independent tax reviews on a regular basis particularly where the transactions involve purchase or sale of land.

3.3 Declaration of interests (section 4.4 page 13)

Audit New Zealand recommends all interests are declared and recorded in the Interest Registers.

Action taken

Staff have updated the business processes for related party disclosures to include bi-annual searches of the various registers to ensure disclosures are up to date.

3.4 Sensitive expenditure (section 4.5 page 13)

Audit New Zealand recommends that Council ensures transactions are coded correctly and supporting documentation is attached to ensure all transactions have sufficient evidence and are allocated to the correct general ledger.

Action taken

A recent internal audit of sensitive expenditure has been completed. Staff have updated the business processes to ensure regular expense reconciliations to detect errors and omissions and corrective action. Staff have also received additional training in recent times.

4 Public sector audit

Audit New Zealand concluded the Council has fairly reflected the results of its activities in its financial and non-financial information. Audit New Zealand did not note any areas of concern from their work completed over the indicators of issues relevant to the audit.

5 Group audit

The Bay of Plenty Regional Council Group comprises of Bay of Plenty Regional Council and the Quayside Group. The Audit New Zealand report discusses the outcome of its review of the main audit risks and issues for the Quayside Group.

Audit New Zealand did *not* identify any instances where their review of the work of component auditors gave rise to a concern about the quality of that auditor's work; limitations of the group audit; or fraud or suspected fraud involving group management, component management, employees with significant roles in group-wide controls, or others where the fraud resulted in a material misstatement of the group financial statements.

6 Status of previous recommendations

Two necessary recommendations remain open (credit master file changes report and fraud policy updates) as these actions are work in progress. The final audit report, and interim audit report noted that staff have implemented or closed a number of recommendations raised during the interim or previous audits.

7 Conclusion

The external auditor's report has highlighted several recommendations and these have been appropriately actioned by the Bay of Plenty Regional Council.

8 Council's Accountability Framework

8.1 Community Outcomes

This project/proposal directly contributes to all Community Outcomes in the Council's Long Term Plan 2018-2028.

8.2 Long Term Plan Alignment

This work is planned under the Finance and Corporate Planning Activity in the Long Term Plan 2018-2028.

Current Budget Implications

This work is undertaken within the current budget for the Finance and Corporate Planning Activity in Year 1 of the Long Term Plan 2018-2028. The agreed audit fee per the approved Audit New Zealand fee letter is \$130,599 (excluding disbursements).

Future Budget Implications

Future work on the external audit is provided for in Council's Long Term Plan 2018-2028.

Debbie Hyland

Finance and Corporate Planning Manager

for General Manager, Corporate Performance

19 November 2018

APPENDIX 1

2018-11 Audit New Zealand - Final report on the audit of Bay of Plenty Regional Council for the year ended 30 June 2018

**Report to the Council on the
audit of**

Bay of Plenty Regional Council and Group

For the year ended 30 June 2018

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Key messages

We have completed the audit for the year ended 30 June 2018. This report sets out our findings from the audit and draws attention to areas where Bay of Plenty Regional Council and Group (the Council) is doing well and where we have made recommendations for improvement.

Audit opinion

We issued an unmodified audit report on 27 September 2018.

Matters identified during the audit

The Council revalued its land and buildings, Rotorua Te Arawa Lakes Programme and park buildings and reserves assets as at 30 June 2018 and its flood protection assets as at 1 July 2017. We reviewed the revaluations and were satisfied the valuation movements have been fairly reflected in the statement of comprehensive revenue and expense and the associated disclosures are appropriate. We did note some areas for improvement in relation to processing revaluation adjustments in accordance with the requirements of PBE IPSAS 17 *Property, plant and equipment*. Our recommendations are covered later in this report.

The Council had previously allocated funding from the contestable portion of the Regional Infrastructure Fund to four regional projects. The four projects committed to so far include the Tauranga Marine Precinct, the Tauranga Tertiary Campus, Scion Research facility and Ōpōtiki Harbour redevelopment. All projects were subject to certain conditions being met before funding could proceed. For the payments made during the current year we confirmed the funds were used for the purposes intended. We confirmed payments made have been correctly accounted for and we have reviewed and were satisfied disclosures in the Annual Report relating to the payments were appropriate.

The Council engaged in a number of land acquisitions during the year. Our review of these purchases and the related tax treatment showed that the GST portion of the transactions was incorrectly accounted for. Our recommendations in this area have resulted in the Council being entitled to claim a GST refund of approximately \$219,679.

A good draft of the Annual Report was available at the start of the audit and all queries raised through our audit work were addressed as a priority. We commend the Council for delivery during the audit process.

This report and our Report to the Council on the interim audit, dated 5 June 2018, include a number of areas for improvement around the Council's control environment. We recommend the Council reads this report in conjunction with our Report to the Council on the interim audit.

Thank you

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

A handwritten signature in blue ink, appearing to read 'B Halford', with a stylized flourish at the end.

B H Halford
Appointed Auditor
16 November 2018

1 Recommendations



Our recommendations for improvement and their priority are based on our assessment of how far short current practice is from a standard that is appropriate for the size, nature, and complexity of the Council's business. We have developed the following priority ratings for our recommended improvements.

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

1.1 New recommendations

The following table summarises our recommendations and their priority.

Recommendation	Ref	Priority
Implement systems for processing asset revaluations in the accounting system, to ensure all assets to be revalued are accounted for.	4.1	Necessary
Revaluations be performed with sufficient regularity, and in line with the Council's accounting policy, to ensure that the carrying value of an asset does not differ materially from its fair value.	4.2	Necessary
All land purchases and sale of land are reviewed to ensure appropriate treatment of GST is applied and accounted for.	4.3	Necessary
All interests are declared and recorded in the Interest Registers.	4.4	Necessary

Recommendation	Ref	Priority
The Council ensures transactions are coded correctly and supporting documentation is attached to ensure all transactions have sufficient evidence and are allocated to the correct General Ledger.	4.5	Necessary

1.2 Status of previous recommendations

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

Priority	Priority			
	Urgent	Necessary	Beneficial	Total
Open	-	2	-	2
Implemented or closed	-	1	1	2
Total	-	3	1	4

2 Our audit report

2.1 We intend issuing an unmodified audit report



We issued an unmodified audit report on 27 September 2018. This means that we were satisfied that the financial statements and statement of service performance present fairly the Council's activity for the year and its financial position at the end of the year.

In forming our audit opinion, we considered the following matters.

2.2 Uncorrected misstatements

The financial statements are free from material misstatements, including omissions. During the audit, we have discussed with management any misstatements that we found, other than those which were clearly trivial.

There were no significant misstatements identified during the audit that have been corrected.

2.3 Quality and timeliness of information provided for audit



Management is required to provide information for audit relating to the annual report of the Council. This includes the draft annual report with supporting working papers. We provided a listing of information we required to management. This included the dates we required the information to be provided to us.

All information was supplied to us within the agreed timeframes and were of a good standard.

3 Matters raised in the audit plan



In our Audit Plan dated 28 May 2018, we identified the following matters as the main audit risks and issues:

Audit risk/issue	Outcome
Property, plant, and equipment valuations	
<p>PBE IPSAS 17: <i>Property Plant and Equipment</i>, requires that valuations are carried out with sufficient regularity to ensure that the carrying amount does not differ materially from fair value and assets are revalued in line with their respective accounting policy.</p>	<p>The Council revalued its land and buildings, Rotorua Te Arawa lakes assets, parks buildings and reserves, and flood protection assets during the 2018 year.</p> <p>We are satisfied the valuation movements have been fairly reflected in the financial statements and the associated disclosures are appropriate.</p> <p>However, we noted areas for improvement in relation to revaluations in accordance with the requirements of PBE IPSAS 17. Our recommendations are detailed in sections 4.1 and 4.2 of this report.</p> <p>We reviewed the Council’s fair value assessment of these assets as at 30 June 2018 and are satisfied with management’s assessment that the asset fair values do not differ materially from their net book values.</p>
Regional Infrastructure Fund (RIF)	
<p>The Council is funding a significant programme of regional projects through the RIF. The four projects the Council has committed to are:</p> <ul style="list-style-type: none"> • the Tauranga Marine Precinct, • the Tauranga Tertiary Campus, • Scion research facility; and • Ōpōtiki Harbour redevelopment. <p>The funding is subject to certain conditions being met.</p>	<p>The Council made \$5 million and \$15 million available for the development of Stage One of the Tauranga Marine Precinct and the development of the Tauranga Tertiary Campus respectively.</p> <p>We confirmed that the Council paid out \$2.7 million (total to date \$5 million) towards the Tauranga Marine Precinct and \$9 million (total to date \$9 million) towards the Tauranga Tertiary Campus projects during the year.</p> <p>For the payments made during the 2017/18 year, we confirmed the funds are used for the purpose intended.</p>

Audit risk/issue	Outcome
	<p>We confirmed payments have been correctly accounted for and confirmed the disclosures in the Annual Report relating to the payments are appropriate.</p> <p>We will continue to monitor payments from the RIF as part of the 2018/19 audit.</p> <p>No other payments have been made to date for the other projects.</p>
Rotorua Te Arawa Lakes Programme	
<p>The 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 Council whose purpose is to oversee the enhancement of the water quality in Rotorua's lakes. The terms of reference and delegations policy create 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 reviewed payments made towards the reduction of nitrogen levels in Lake Rotorua and confirmed the funds were only used for the intended purpose.</p> <p>In addition, we reviewed transactions with related parties of members of the Lake Rotorua Incentives Board and confirmed related party transactions were at arm's length.</p> <p>We will continue to monitor this issue as part of the 2018/19 audit.</p>
Management override	
<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>We have confirmed the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.</p> <p>We reviewed accounting estimates for bias and determined that the risk of a material misstatement was low.</p> <p>We have not identified any significant transactions that are outside the normal course of business, or that otherwise appear to be unusual given our understanding of the Council and its environment and other information obtained during the audit.</p>

Audit risk/issue	Outcome
Consolidation of Group financial statements	
<p>The Quayside Group is a subsidiary of the Council. Adjustments are required on consolidation to reflect differences in accounting standards applied between the Quayside Group and Bay of Plenty Regional Council Group.</p>	<p>Adjustments were required on consolidation to reflect differences in accounting policies between the Quayside Group and Bay of Plenty Regional Council Group. This is due to Quayside Group being a profit orientated entity and its policies are based on New Zealand International Financial Reporting Standards (NZ IFRS). We found all adjustments were correctly made.</p> <p>We also considered if there is an impairment of the Quayside Group. Due to the profitability of the group, the positive net asset position and the flow of dividends to the Council, we confirmed that no impairment was necessary.</p>

4 Other findings and areas of focus



In this section, we have detailed our key findings from the audit, in order of significance. We have also detailed our findings in relation to other areas of focus.

4.1 Property, plant, and equipment valuations – process improvements

We recommend the Council implements systems for processing asset revaluations in the accounting system, to ensure all assets to be revalued are accounted for.

Background

Our review of the revaluation of the assets found processing errors such as a double-counting of assets and asset values incorrectly entered into the system. The significant errors were corrected by the Council. We accepted the uncorrected amounts on the basis they would have a clearly trivial impact on the annual report.

Our review of the Parks buildings and reserves asset class identified that the values provided by the valuer were the replacement costs of the assets. PBE IPSAS 17 requires that assets be valued at their fair value and, if that is unavailable, the depreciated replacement cost be used not replacement cost. We accepted the difference between the replacement cost and depreciated replacement cost for this asset class as not material.

Management comment

The business processes for asset accounting will include additional controls to ensure the timeliness, accuracy, and completeness of asset revaluations and fair value assessments. Staff will also receive additional training.

4.2 Property, plant, and equipment valuations – assets not revalued in line with accounting policy

We recommend that revaluations are performed with sufficient regularity, and in line with the Council's accounting policy, to ensure that the carrying value of an asset does not differ materially from its fair value.

Background

The Council's accounting policy is to revalue its assets every three years. Parks Land (restricted assets) has not been revalued for a number of years. We expect Parks Land (restricted assets) would have been revalued at the same time as other land and buildings, and parks buildings and reserves, both of which were revalued as at 30 June 2018.

To ensure the value of the assets had not changed by a material amount, we reviewed the fair value assessment on Parks Land (restricted assets) completed by the Council and confirmed the carrying value is not materially different from its fair value.

Management comment

The business processes for asset accounting will include additional controls to ensure the completion of asset revaluations consistent with accounting policy and on a regular basis.

4.3 Treatment of GST on land purchases

We recommend all land purchases and sales of land are reviewed to ensure the appropriate treatment of GST is applied and accounted for, especially in instances where the other party is a non-registered person.

Background

During our review, we noted the Council had not claimed input tax in relation to certain properties acquired from non-registered persons.

An input tax deduction can be claimed on the purchase of second hand goods where:

- the supply is not a taxable supply (such as an exempt supply or a supply by a non-registered person), and
- the goods acquired will be used to make taxable supplies (for example deriving rates income or government grants).

Land is regarded as a second hand good. As a result, a registered person is generally entitled to claim an input tax credit in relation to the cost of any property purchased, even if the supply is not subject to GST. However, an input tax deduction may not be claimed if the property is purchased solely for the purpose of making exempt supplies (for example pensioner housing).

In this case we understand that the properties will be used for taxable purposes (for example roads, reserves), and have not been acquired solely for providing residential accommodation. As a result, the Council would be entitled to claim a GST refund of approximately \$219,679.

GST adjustments will be required if there is a dwelling on the land which is rented prior to removal or sale. However, provided that the Council intends to dispose of the dwelling or intends to use the building for purposes other than providing residential accommodation, a second hand goods input tax credit may be claimed in the period in which the property is acquired.

If the land or buildings were subsequently sold, the Council would also be required to account for GST on the sale proceeds.

Management comment

As part of the August GST claim, Council claimed the input tax credit. Additionally, Council will undertake an independent tax review on a regular basis.

4.4 Declaration of interests

We recommend all interests are declared and recorded in the Interest Registers.

Background

Our audit work over related parties, including searches of the Companies Office and the Charities Commission registers, identified a number of interests that were not declared in the Council's interest registers.

Management comment

The business processes for related parties' declarations will include bi-annual searches of the various registers to ensure disclosures are up to date.

4.5 Sensitive Expenditure

We recommend the Council ensures transactions are coded correctly and supporting documentation is attached to ensure all transactions have sufficient evidence and are allocated to the correct General Ledger.

Background

Sensitive expenditure is the subject of significant public scrutiny.

From our review of a sample of sensitive expenditure transactions, including P-card, international travel and expense claim transactions, we identified one instance where a P-card transaction did not have supporting documentation. We also noted five instances where transactions had been incorrectly coded.

Whilst the amounts involved were small, P-card, international travel, and expense claims are susceptible to higher public scrutiny.

Management comment

The business processes for sensitive expenditure have been updated recently following an internal audit, to ensure regular expense reconciliations to detect errors and omissions and corrective action. Staff will also receive additional training.

4.6 Rates

Rates are the Council's primary funding source. Compliance with the Local Government (Rating) Act 2002 (LGRA) in rates setting and collection is critical to ensure that rates are validly set and not at risk of challenge. The Council should ensure it has appropriate processes in place, including seeking legal advice where appropriate, to ensure compliance of its rates and rating processes with legislation.

We note that the Council engaged the services of Simpson Grierson to perform a review over the 2017/18 rates resolution and related rates funding impact statements. Improvements recommended by Simpson Grierson were made by the Council prior to the adoption of the final rates resolution. During our final audit we were satisfied that the 2018/19 rates resolution and funding impact statements met the significant requirements of the LGRA 2002. We noted no issues regarding the disclosures of rates within the annual report.

We emphasise that our review of compliance with legislation is completed for the purposes of expressing our audit opinion. It is not, and should not be seen, as a comprehensive legal review. This is beyond the scope of the audit, and our expertise as auditors. The Council is responsible for ensuring that it complies with applicable laws and regulations.

4.7 Debenture Trust Deed

We intend issuing an assurance report to the Trustees of the Council's Debenture Trust Deed (the deed). This requirement is included in the Council's deed dated 30 November 2011.

We obtained the reporting certificate from the Council and ensured it complied with the deed and our findings from the annual audit work.

We issued a separate report to the Council and Trustees on 27 September 2018.

5 Public sector audit



The Bay of Plenty Regional Council is accountable to its local community and to the public for its use of public resources. Everyone who pays taxes or rates has a right to know that the money is being spent wisely and in the way the Council said it would be spent.

As such, public sector audits have a broader scope than private sector audits. As part of our audit, we have considered if the Council has fairly reflected the results of its activities in its financial statements and non-financial information.

We also consider if there are any indications of issues relevant to the audit with:

- compliance with statutory obligations that are relevant to the annual report;
- the Council carrying out its activities effectively and efficiently;
- the Council incurring waste as a result of any act or failure to act by a public entity;
- any sign or appearance of a lack of probity as a result of any act or omission, either by the Council or by one or more of its members, office holders, or employees; and
- any sign or appearance of a lack of financial prudence as a result of any act or omission by a public entity or by one or more of its members, office holders, or employees.

We did not note any areas of concern from our work completed over the above matters. We were able to conclude the Council has fairly reflected the results of its activities in its financial statements and non-financial information.

6 Group audit



The Group comprises Bay of Plenty Regional Council and the Quayside Group.

The Quayside Group comprises

- 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).

We have not identified any of the following during our audit for the year ended 30 June 2018:

- Instances where our review of the work of component auditors gave rise to a concern about the quality of that auditor's work.
- Limitations on the group audit.
- Fraud or suspected fraud involving group management, component management, employees with significant roles in group-wide controls, or others where the fraud resulted in a material misstatement of the group financial statements.

The following matters have been identified as the main audit risks and issues for the Quayside Group, in the audit plan dated 29 May 2018.

6.1 Issues related to the Quayside Group (excluding POTL)

Audit risk/issue	Outcome
Share investments (QHL, QUT, and QIT)	
<p>QHL and QUT have continued to transfer all listed shares to QIT (except POTL shares) as planned.</p> <p>We noted from June 2017 a new delegated authority policy was adopted allowing the Chief Executive or the Investment Manager to approve share transactions up to \$5 million if the investment is in line with Quayside’s Statement of Investment Policy and Objectives.</p>	<p>We found the investments were recorded at fair value and correctly disclosed in the financial statements.</p> <p>We reviewed a sample of purchases and sales of investments and found they were appropriately approved by the Board or Chief Executive or Investment Manager. Supporting documentation was reviewed and we were able to confirm that gains and losses were correctly accounted for.</p> <p>The year-end valuations of the QHL, QIT, and QUT investments were reviewed and we confirmed a sample of investments to supporting documentation.</p>
Investment property and bearer plants (QPL)	
<p>QPL has revalued its property, plant, and equipment (bearer plants), intangible assets (kiwifruit licences), and investment property this year. This has resulted in the following fair value movements:</p> <ul style="list-style-type: none"> • \$903k increase to bearer plants through comprehensive income; • \$271k increase to kiwifruit licences through comprehensive income; and • \$2,824k increase to investment property through profit and loss. 	<p>We confirmed the valuation movements and balances at year end were correctly recognised in the financial statements.</p> <p>Our procedures included:</p> <ul style="list-style-type: none"> • assessing the competence, objectivity and independence of the valuers used by management; • we assessed whether the valuation methodologies used to fair value each asset class was in accordance with professional valuation standards and suitable for determining the fair value of the identified assets; • comparing the valuation methodologies applied to prior periods and considering whether any changes to the methodologies were appropriate; • agreeing the assets recorded in the fixed asset register to those valued by the independent valuer to ensure all applicable assets had been revalued; and

Audit risk/issue	Outcome
	<ul style="list-style-type: none"> we compared the key assumptions within each assessment to market evidence and applicable industry data and challenged the application of assumptions in significant items. This included comparing sales information and market rental and growth rates to market data where available, and considering whether the assumptions used were correct.
The risk of management override of internal controls (QHL, QUT, QPL, QIT and QSL)	
<p>Auditing standards require us to consider fraud risks in all audits we perform. 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>We did not identify any issues regarding management override of controls.</p> <p>We undertook the following:</p> <ul style="list-style-type: none"> tested the appropriateness and existence of controls over journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; performed testing and analysis of journals and other adjustments that we identified as being of higher risk (complex in nature, involve significant judgement, and result in significant period end movements); reviewed accounting estimates for bias and evaluated whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud; and reviewed significant transactions outside the normal course of business, or that otherwise appear to be unusual to determine whether the transaction suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets.

Audit risk/issue	Outcome
Conflicts of interest (QHL, QUT, QPL, QIT and QSL)	
It is primarily the responsibility of public bodies to identify and manage conflicts of interest and we did not complete additional audit work in this area. However, in the course of our usual audit work we remained generally alert for conflicts of interest.	We did not identify any possible conflicts of interest that may not have been well-managed, or that may create significant risk.
Sensitive expenditure (QHL, QUT, QPL, QIT and QSL)	
Sensitive expenditure is the subject of significant public scrutiny.	<p>We tested a sample of transactions for compliance with the stated policies. The sample was chosen from the Quayside Group's general ledgers with a focus on expense claims and reimbursements.</p> <p>We found the samples tested complied with the Quayside Group's policies and the expectations of a public sector entity. We did not identify any issues of concern.</p>

6.2 Issues related to Port of Tauranga Limited (POTL)

Audit risk/issue	Outcome
Property, plant, and equipment valuations	
<p>POTL has property, plant, and equipment of \$1,446 million and a policy of recording certain assets (land, buildings, wharves and hardstanding, and harbour improvements) at fair value.</p> <p>A revaluation of these asset classes was performed as at 30 June 2018 resulting in a revaluation gain of \$226 million recorded in the current year.</p>	<p>As group auditors we held discussions with the component auditor, KPMG.</p> <p>The audit procedures performed by the component auditor included:</p> <ul style="list-style-type: none"> • assessing the competence, objectivity and independence of the valuer; • ensuring the valuation approach was in accordance with professional valuation standards and suitable for determining the fair value; • reviewing key assumptions; and • ensuring the valuation movement was correctly accounted.

Audit risk/issue	Outcome
	<p>Land assets have increased significantly by \$151 million (26%) primarily due to market movements, regional growth, and a change in valuation assumptions relating to the waterfront premium and occupied versus unoccupied land.</p> <p>The other major increase was for wharves and hardstanding assets which increased by \$48 million (19%) primarily due to inflation and in particular a cost uplift for wharf construction costs.</p> <p>We were satisfied that revaluations have been performed in accordance with appropriate accounting and valuation standards and the asset values reflects fair value.</p>
Carrying value of Coda Group Limited Partnership investments (POTL)	
<p>The carrying value of POTL's equity accounted investment in Coda is \$52.2 million, of which \$29.4 million relates to goodwill.</p> <p>There is subjectivity involved in assessing the value of the investment, to support the carrying value of Coda.</p> <p>An impairment test is considered necessary and includes a number of sensitive judgements such as cash flow growth, discount rate and terminal growth rate.</p>	<p>We are satisfied impairment assessments made were robustly tested through the audit process and no impairment needs to be recognised.</p> <p>We discussed the carrying value of Coda Group Limited Partnership investments with the component auditor, KPMG.</p> <p>The audit procedures performed by the component auditor included evaluating the valuation methodology and reviewing the impairment model.</p> <p>They confirmed there were no impairment indicators. The impairment assessment had a headroom of \$16 million. They also noted the primary contributor to Coda EBIT falling short of forecast growth were anomalies in Metrobox which are not expected to be repeated.</p>
Valuation of derivative financial instruments (POTL)	
<p>NZ IFRS 13 requires the assessment of fair value of derivative financial instruments.</p> <p>The fair value assessment requires estimates and judgments which require the use of an external expert.</p>	<p>We are satisfied the valuation of derivatives and corresponding fair value movements were appropriately reviewed.</p> <p>We discussed valuation of derivative financial instruments with the component auditor.</p>

Audit risk/issue	Outcome
<p>NZ IAS 39 requires that the ineffective portion is recognised in the profit or loss.</p>	<p>The audit procedures performed by the component auditor included agreeing amounts third party confirmations a valuations and ensuring fair value movements were appropriately accounted for.</p> <p>They identified one issue where the value of ineffective derivatives has been recognised through the cash flow hedge reserve (equity) rather than profit and loss (refer to section 1.3).</p>
Management override of controls (POTL)	
<p>Management is 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>Executive bonuses are related to the financial performance of the business.</p> <p>Related party transactions exist between those charged with governance, key management personnel, and the entity.</p> <p>A number of balance sheet items are held at fair value. Determining fair value requires management to make judgments and estimates.</p>	<p>We are satisfied key risk areas relating to management override were appropriately reviewed.</p> <p>We discussed management override of controls with the component auditor.</p> <p>The audit procedures performed by the component auditor included reviewing journal entries, changes in accounting estimates, key management personnel compensation arrangements and impairment investment testing.</p> <p>They confirmed that no issues were identified.</p>
Revenue recognition (POTL)	
<p>The fraud risk related to the existence of revenue is mandated by the International Standards on Auditing.</p> <p>There is an incentive to maintain earnings growth for investors.</p>	<p>We are satisfied revenue recognition policy and application was appropriately reviewed and procedures covering cut off, revenue in total and credit notes were undertaken.</p> <p>We discussed revenue recognition with the component auditor.</p> <p>The audit procedures performed by the component auditor included reviewing journal entries, analysing bank transactions, performing sales cut-off testing around year end, obtaining confirmations and ensuring revenue recognition is in line with accounting standards.</p>

Audit risk/issue	Outcome
	They confirmed that no issues were identified.
Performance, waste, and probity (POTL)	
<p>There is an expectation from the stakeholders of public sector entities that they will be financially prudent. This is an audit focus area enforced by the Office of the Auditor-General (OAG) on public sector entities.</p>	<p>We are satisfied key risk areas relating to performance, waste and probity were appropriately reviewed.</p> <p>We discussed performance, waste, and probity with the component auditor.</p> <p>The audit procedures performed by the component auditor included discussions with management, reviewing management’s assessment of key risk areas (and associated mitigating processes/controls) and testing a sample of key risk areas.</p> <p>They confirmed that no issues were identified.</p>
Taxation (POTL)	
<p>POTL’s taxation calculations are complex, including fair value adjustments which have an impact on deferred tax.</p>	<p>We are satisfied tax balances have been calculated correctly, and are fairly stated in the annual report.</p> <p>We discussed taxation with the component auditor.</p> <p>The audit procedures performed by the component auditor included reviewing tax balances and calculations.</p> <p>They confirmed that no issues were identified.</p>

7 Useful publications



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

Description	Where to find it
Client updates	
<p>In March 2018, we hosted a series of client updates. The theme was “Our high performing and accountable public sector”.</p> <p>These included speakers from both Audit New Zealand and external organisations.</p>	<p>On our website under publications.</p> <p>Link: Client updates</p>
Model financial statements	
<p>Our model financial statements reflect best practice we have seen to improve financial reporting. This includes:</p> <ul style="list-style-type: none"> • significant accounting policies are alongside the notes to which they relate; • simplifying accounting policy language; • enhancing estimates and judgement disclosures; and • including colour, contents pages and subheadings to assist the reader in navigating the financial statements. 	<p>On our website under publications.</p> <p>Link: Model Financial Statements</p>
Tax matters	
<p>As the leading provider of audit services to the public sector, we have an extensive knowledge of sector tax issues. These documents provide guidance and information on selected tax matters.</p>	<p>On our website under publications and resources.</p> <p>Link: Tax Matters</p>

Description	Where to find it
Data in the public sector	
<p>The OAG has published a series of articles about how data is being used in the public sector. These cover:</p> <ul style="list-style-type: none"> • functional leadership; • building capability and capacity; • collaboration; and • security. 	<p>On the OAG’s website under publications. Link: Data in the public sector</p>
Matters arising from the 2016/17 audits	
<p>The OAG has published a report on the results of the 2016/17 audits for the sector.</p>	<p>On the OAG’s website under publications. Link: Recent publications</p>
Audit Committees	
<p>The OAG has released various best practice information on Audit Committees.</p>	<p>On the OAG’s website under “Our Work – Audit Committee Resources” Link: Audit Committee Resources</p>
Infrastructure as a Service	
<p>The OAG has completed a performance audit on Infrastructure as a Service and considered whether the benefits are achieved.</p>	<p>On the OAG’s website under publications. Link: Infrastructure as a Service</p>

Appendix 1: Status of previous recommendations

Open recommendations – raised/followed up during interim

Recommendation	First raised
Necessary	
Timely review of creditor master file changes report	
<p>The timely independent review of the creditor master file is an important control that serves to ensure integrity of changes to creditor information. The Council runs a creditor master file changes report each week, however, we noted the creditor master file report had not been promptly reviewed consistently.</p> <p>It is essential that the control operates throughout the year to ensure the integrity of the Council’s financial information.</p> <p>We recommend that independent reviews are carried out promptly each time the report is prepared. This helps ensure that the creditor information within the system is genuine and correct, and any incorrect or inappropriate changes are identified within a timely manner.</p>	Interim 2017/18
Fraud Policy	
<p>Based on Ministry of Justice’ guidance we recommended that the Council updates its Fraud Policy to include the following:</p> <ul style="list-style-type: none"> • purpose of the policy should include that it is to be used to raise awareness about how to recognise fraud and corruption, as well as behaviours and circumstances known to be associated with it; • policy should reiterate that the Council is committed to its legal obligations to act fairly, honestly and in good faith when conducting investigations; • policy should warn of the high penalties that people can face if they are convicted of fraud or corruption offences under the Crimes Act 1961 or the Secret Commissions Act 1910. Maximum penalties range from substantial fines and/or 14 years imprisonment; • policy should provide a brief explanation (with examples) of the difference between the Council’s fraud policy, and other policies enable staff to distinguish fraud and corruption from code of conduct and privacy breaches; • policy should outline the details of how investigations will be conducted; and • policy should also include a system for undertaking regular reviews of transactions, activities, or locations that may be susceptible to fraud. 	2017

Implemented or closed recommendations – closed at final

Recommendation	First raised	Status
Air quality performance reporting		
<p>Our walkthrough of the Council’s system, processes and controls in place over the performance measure “<i>Number of exceedances of PM10 in the Rotorua LAMA (Rotorua Local Air Management Area) (Exceedances of the NESAQ standard)</i>” found that there is an inconsistency in the information relating to the number of exceedances uploaded onto the Council’s website and the 24hr live data that can be accessed via the Council’s website.</p> <p>The inconsistency relates to the live data excluding exceedances relating to “summer dust conditions” as reported in the February 2018 Council Performance Monitoring Report (CPMR).</p> <p>We recommended the Council rectifies the inconsistency. The Council needs to ensure that it reports on accurate and complete information on the measure for live monitoring and the annual report.</p>	<p>2017/18 interim</p>	<p>At the time of the interim audit, the Council was validating the results for the Moses Road site and has now determined that reliability of the information from this site was not sufficient to meet the requirements for reporting on this measure. Our review of the performance measure showed that the Council based its reported results solely on the monitoring of and data produced from the Edmund Road site in Rotorua. This is consistent with previous years.</p>
Reporting of transport fare recovery ratio		
<p>We understand this is the final year that the Council will be reporting against the fare recovery ratio measure. In the 2018-28 Long Term Plan, the Council adopted new performance measures for reported performance for Passenger Transport. However, we recommended that best practice, where data is available, is to monitor actual versus targeted results on a regular basis. This would enable the Council to better monitor and implement interventions where key performance indicators reflect the Council is not on track.</p>	<p>2017/18 interim</p>	<p>From our work performed over non-financial performance during our final audit we were satisfied with the reported performance and related disclosure of this measure in the Annual Report. We continue to urge the Council, as new measures are reported on in the ensuing year, that actual versus targeted results are monitored on a regular basis.</p>

Implemented or closed recommendations – closed at interim

We refer the Council to our Report to the Council on the interim audit, dated 5 June 2018, which included a number of recommendations implemented by the Council and therefore closed during our interim audit.

Appendix 2: Adoption of new accounting standards

Mixed group issues

The Quayside Group (a for-profit entity) is consolidated into the Bay of Plenty Regional Council (parent), a public benefit entity (PBE) group. In submitting information to the parent for consolidation purposes, consolidation adjustments may be necessary due to the different for-profit and PBE accounting requirements for revenue, financial instruments, and leases.

Adjustments that arise on transition to the new for-profit standards will need to be assessed as to whether they need to be reversed for PBE consolidation purposes.

We encourage management to discuss these “mixed group” reporting issues with its subsidiary.

For the 2018/19 annual report, there are three significant for-profit standards that will be applicable to the Quayside Group. The Council needs to assess the impact of these changes and reflect the adjustments in the Council’s financial statements. The three applicable standards have been summarised below.

NZ IFRS 15 Revenue from Contracts with Customers

Some key facts about NZ IFRS 15:

- Applies to for-profit entities with reporting periods that commence on or after 1 January 2018.
- Replaces NZ IAS 18 *Revenue* and NZ IAS 11 *Construction Contracts*, and revenue related interpretations.
- Revenue is recognised by applying a five step revenue recognition model, which is applied at the contract level.
- Depending on the contract, revenue may be recognised over time as performance obligations are satisfied, or at a point in time.
- The standard permits an entity to apply the standard either, retrospectively by restating comparatives for the previous reporting period, or prospectively from the start of the current financial period.
- There are new revenue disclosures, including disclosures about the transition. These new disclosures will need to be carefully considered on transition.

Under NZ IFRS 15, revenue is recognised by applying the five step model below, to its contracts with customers:

- 1 Identify the contract(s) with a customer.
- 2 Identify each of the separate and distinct performance obligations in the contract.
- 3 Determine the consideration to be received. NZ IFRS 15 provides guidance on variable consideration, such as volume pricing or discounts, and bonus or incentive payments.
- 4 Allocate the consideration to be received to each of the separate performance obligations.
- 5 Recognise revenue when (or as) the separate performance obligations are satisfied.

NZ IFRS 15 includes detailed guidance on the application of these five steps.

Application of this five step model may be time consuming and complex, particularly if an entity has a wide range of contractual terms with its customers. Significant judgement may also be required in applying the five step revenue recognition model.

NZ IFRS 9 Financial Instruments

Some key facts about NZ IFRS 9:

- Applies to for-profit entities with reporting periods that commence on or after 1 January 2018.
- Replaces NZ IAS 39 *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 NZ IAS 39. 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 NZ IFRS 9 hedging requirements is currently optional. This means entities have a choice in the meantime to either transition to the new NZ IFRS 9 hedging requirements or continue to apply the NZ IAS 39 hedging requirements.

- There are options on whether to adopt NZ 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 NZ IFRS 7 have been amended by NZ IFRS 9. These revised disclosures will need to be carefully considered on transition.

NZ IFRS 16 Leases

Some key facts about NZ IFRS 16:

- Applies to for-profit entities with reporting periods that commence on or after 1 January 2019.
- Replaces NZ IAS 17 *Leases*, and lease related interpretations.
- Lessees will no longer apply the finance and operating lease distinction. Lessees will need to recognise most leases on the statement of financial position as a lease liability and “right to use” asset. The lease liability and right to use asset will generally be initially recognised at the present value of the lease payments. The asset will then be depreciated over the term of the lease while an interest expense recognised on the lease liability based on the discount rate determined at the commencement of the lease. Recognition exemptions are available for low value and short-term leases.
- For lessees, significant judgement may need to be exercised when determining the lease term for a lease with renewal and termination options.
- Lessors continue to apply the finance and operating lease distinction.

Appendix 3: Disclosures

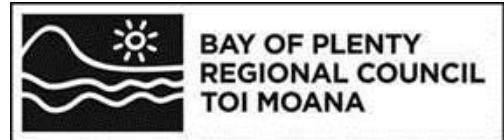
Area	Key messages
Our responsibilities in conducting the audit	<p>We carried out this audit on behalf of the Controller and Auditor-General. We are responsible for expressing an independent opinion on the financial statements and performance information and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001.</p> <p>The audit of the financial statements does not relieve management or the Council of their responsibilities.</p> <p>Our Audit Engagement Letter contains a detailed explanation of the respective responsibilities of the auditor and the Council.</p>
Auditing standards	<p>We carried 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.</p>
Auditor independence	<p>We are independent of the Council in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): Code of <i>Ethics for Assurance Practitioners</i>, issued by New Zealand Auditing and Assurance Standards Board.</p> <p>In addition to our audit and our report on the disclosure requirements, we have carried out engagements in the areas of the long term plan and debenture trust deed, which are compatible with those independence requirements. Other than these engagements we have no relationship with or interests in the Council or its subsidiaries and controlled entities.</p>
Fees	<p>The audit fee for the year is \$130,599, as detailed in our Audit Proposal Letter. Other fees charged in the period are \$95,000 for the long term plan, \$4,500 for the debenture trust deed engagement.</p> <p>There was also an audit fee of \$102,000 for the subsidiary, the Quayside Group.</p>
Other relationships	<p>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 Bay of Plenty Regional Council or its subsidiaries that is significant to the audit.</p> <p>We are not aware of any situations where a staff member of Audit New Zealand has accepted a position of employment with the Bay of Plenty Regional Council or its subsidiaries during or since the end of the financial year.</p>

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Receives Only – No Decisions

Report To: Audit and Risk Committee
Meeting Date: 28 November 2018
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 the 21st 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 28th November 2018.

2 Audit and Risk Work Programme

Appendix 1 shows the Audit and Risk work programme for the period November 2018 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 September 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.

4.2 Long Term Plan Alignment

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

Current Budget Implications

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

Future Budget Implications

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

Mat Taylor
General Manager, Corporate

19 November 2018

APPENDIX 1

APPENDIX 1 Audit and Risk Work Programme November 2018 to September 2019

Audit and Risk Committee Programme November 2018 to September 2019

November 2018 Wednesday 28 th November	March 2019 TBC	June 2019 TBC	September 2019 TBC
<ul style="list-style-type: none"> External Audit Management Report for the Annual Report Year Ended 30 June 2018 		<ul style="list-style-type: none"> External Audit Arrangements Letter for the Audit to 30 June 2019 External Audit Interim Management Report for the Year Ended 30 June 2019 	
<ul style="list-style-type: none"> Internal Audit Progress Report 	<ul style="list-style-type: none"> Internal Audit Status Update 	<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"> 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) Annual Legal Services report Rangitāiki River Scheme Review Implementation update Council Mark Programme Preparation 	<ul style="list-style-type: none"> Chairperson’s Report (including Work Programme) Review of Performance and Effectiveness of the Audit and Risk Committee 	<ul style="list-style-type: none"> Chairperson’s Report (including Work Programme) Council Mark Programme Assessment 	<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

APPENDIX 2 Audit and Risk Completed Work Programme September 2017 to September 2018

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

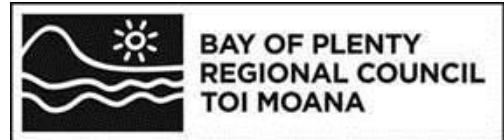
***Audit and Risk Completed Work Programme
September 2017 to September 2018***

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 September 2018***

Meeting date	Report title	Purpose of report
11 September 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"> • 2017/18 Draft Annual Report Review 	To provide the draft 2017/18 Annual Report to the Audit and Risk Committee.
	<ul style="list-style-type: none"> • Key Risk Register – Quarterly Update June 2018 to September 2018 	Periodic review
	<ul style="list-style-type: none"> • 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
	<ul style="list-style-type: none"> • Chairman's Discretionary Fund 2017/18 	To provide a report on the Chairman's Discretionary Fund expenditure in 2017/18
	<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
	<ul style="list-style-type: none"> • 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
	<ul style="list-style-type: none"> • Internal Audit Status Update 	To provide the Committee with an update on the status of internal audit activities
	<ul style="list-style-type: none"> • Internal Audit Annual Report 2017/18 and Review Update 	Receive Update
	<ul style="list-style-type: none"> • Kopeopeo Canal Remediation Project Update 19 	Receive Update
<ul style="list-style-type: none"> • Transport Activities Risks 	To update the Committee on the risks to the successful delivery of the Council's Transport Activities	



Receives Only – No Decisions

Report To: Audit and Risk Committee

Meeting Date: 28 November 2018

Report From: Mat Taylor, General Manager, Corporate Performance

Legal Services Annual Report & Legislative Compliance

Executive Summary

The Legal Services Annual Report & Legislative Compliance reports details another successful year for our in-house legal services, key achievements and group attendances for the 2017/18 financial year.

The report provides an update on the legislative compliance framework and formally reports to the Committee on Regional Council's legislative compliance during the year.

Recommendations

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.**

1 Background

At the Audit and Risk Committee Meeting held 13 June 2017 the report *Internal Audit Status Update and Proposed Internal Audit Work Plan 2017/18 to 2019/20* was presented. This was followed by a separate Legislative Compliance Review report on 19 September 2017 outlining the establishment and work of in-house legal services.

This report summarises key achievements and augmentation of in-house legal services; provides an update on the development of a legislative compliance framework; and formally reports on Regional Council's legislative compliance for the 2017/18 financial year.

The internal audit review did not identify any examples of non-compliance, and further recognised that the very broad remit and responsibilities of Regional Council meant that there were a number of sequential steps and stages to have assurances that all legislative requirements were fully met.

2 In-House Legal Services

Our first in-house legal counsel (Donna Llewellyn) was appointed in August 2016, with a further solicitor appointed (Jessica Easton) in March 2017.

This appointment has diversified our in-house legal services by the addition of legal skills and senior experience in corporate commercial, contract law, liability and risk, governance, health and safety, employment, privacy and official information.

The legal team continues to proficiently deliver legal services for the organisation, including building organisation skills and capacity. Key achievements have included:

- Providing legal advice and support across all Council groups and functions;
- Providing legal advice and support to Councillors including direct advice in attending council and committee meetings;
- Participation in the staff Enforcement Decision Group – where decisions are taken regarding compliance matters;
- Managing five investigations undertaken by the Office of the Ombudsman;
- Completing Public Works Act 1981 acquisitions of 16 properties affected by the Edgecumbe Flood;
- Attendances for a number of litigation risk matters and proceedings on behalf of Regional Council;
- Advice to Co-Governance entities and staff supporting these entities;
- Review and refresh of the Chief Executive's Delegations Manual (will be implemented following completion of the organisation's Fit for Purpose Change Proposal 2018);
- Providing training to staff on specific areas of legislation and delivering *legal seminars* as follows:
 - one presented by an Ombudsman's investigator about LGOIMA issues;
 - legal and public duties of an officer of Council;
 - three seminars to external groups on the civil defence legislative framework;
 - legal requirements of engagement; and
 - changes to the Employment Relations Act 2000 and update on case law for People & Capability team.
- Running weekly drop-in sessions across all office sites so that legal considerations for activities and staff become embedded in our work; and
- Pro-bono legal assistance to Ōpōtiki District Council with a complex Public Works Act 1981 acquisition and services to the NZ Law Society as nominated committee member of the In-House Lawyers Association of New Zealand and faculty member for Litigation Skills Advocacy Programme.

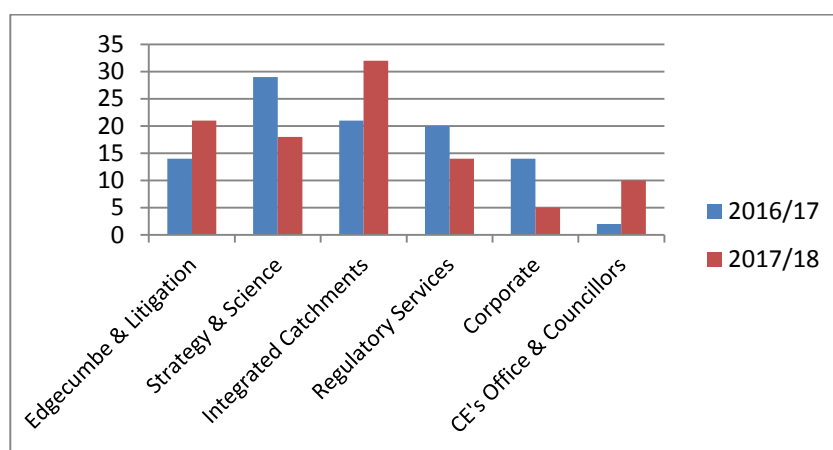
During this financial year it is estimated that the time spent on providing in-house legal advice to the organisation has an equivalent value of approximately \$1.3 million, if such advice had have been sourced from external legal providers.

The range of external providers has expanded this year in recognition of acquiring the best legal skills for the issue and competitive pricing. Our key provider remains Cooney Lees Morgan, and we underwent a fee review which became effective from 1 July 2018.

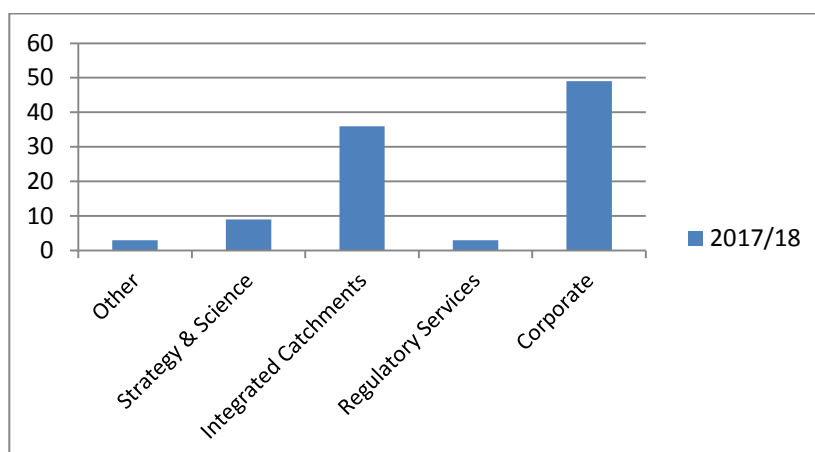
Having regard to growing areas of legal instructions and staff feedback - the organisation's Fit for Purpose Change Proposal 2018 has recognised that there are opportunities to further build the resources of in-house legal services with a view to expanding its remit to include some work currently outsourced.

In particular, there is scope to build our RMA related legal services to support plan changes, resource consents, planning, mediation / litigation, enforcement and contribute for pending RMA reforms.

Percentage of In-House Legal Counsel Attendance by Group



Percentage of In-House Solicitor Attendance by Group (4 months)



3 Legislative Compliance

Legislative compliance in the context of formal reporting concerns any matter for which Regional Council has been wanting in its legal obligations and duties which might then result in a formal investigation, enforcement or prosecution of the organisation.

There is clearly a second tier of legislative obligation concerning our statutory duties, administrative process and timeframes (i.e. such as RMA planning, consents and enforcement, LGOIMA requests, and LGA strategic planning processes). These matters have already been and will continue to be separately reported to Council by the responsible General Manager. By way of examples, there are the quarterly Regulatory Compliance reports to Council, the annual LGOIMA report at the last Council meeting, and specific reporting such as the comprehensive stormwater consenting process.

During the 2017/18 financial year, there has been one matter of concern being non-compliance with an archaeological authority granted to the Regional Council by Heritage NZ Pouhere Taonga on 16 January 2018. The Rangitāiki Floodway Stage 4 project had obtained authority to modify features in the locality of Thornton Hall Road for the bifurcation project and upgrades to the floodway; however, due to a misunderstanding of the authority's statutory timeframe for an appeal period, works commenced during that period uncovering a nationally significant archaeological site. The area is understood to have been part of the settlement complex known as the Thornton Lintel site. Wooden artefacts and organic material has been recovered.

A without prejudice meeting with legal personnel was held on 16 May 2018 between responsible managers and representatives from national and local offices of Heritage NZ Pouhere Taonga. The non-compliance was accepted and explained. We received official correspondence from the Senior Legal Advisor of Heritage NZ on 5 June 2018 advising that after careful consideration, they would not be taking a prosecution.

The artefacts and material discovered are currently in safe custody of an archaeologist whilst engagements with Iwi and other interested parties conclude the fate of the material. The area will eventually be formed into a public wetland area with appropriate interpretation and recognition.

The organisation has also since carried out staff training on dealing with archaeological matters and reinforcement of our standard operation procedure and accidental discovery protocol.

4 Legislative Compliance Framework

Work is continuing in development of this framework and we have included the expertise of our internal auditors to assist. Research, consultation and comparative analysis of other compliance frameworks is underway with particular focus towards local government approaches and not using a framework or software which is onerous and counter-productive for our staff.

An outline of draft procedure has been compiled which will require and reinforce direct reporting through the organisation – Officer to Manager to General Manager and Legal Services to Leadership Team. Immediate notice of non-compliance is required which will be complimented by quarterly reporting and annual reporting to Regional Council. Depending on the non-compliance issue and the degree of risk legally and/or reputational for the organisation, the Chief Executive would notify Councillors in the appropriate way.

The framework will be completed and implemented following the Fit for Purpose Change Proposal 2018 and restructuring before the end of this current financial year.

5 Council's Accountability Framework

5.1 Community Outcomes

This project directly contributes to Community Outcomes in the Council's Long Term Plan 2018-2028.

5.2 Long Term Plan Alignment

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

Current Budget Implications

This work is being undertaken within the current budget for the Corporate Group Activity in the Annual Plan 2018/19.

Future Budget Implications

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

Mat Taylor
General Manager, Corporate

19 November 2018



Receives Only – No Decisions

Report To: Audit and Risk Committee

Meeting Date: 28 November 2018

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 during the first quarter of 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, and notes the process which is taking place to prepare for the assessment.**

1 Background

CouncilMARK is a local government 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 triple AAA to C.

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.

2.2 Long Term Plan Alignment

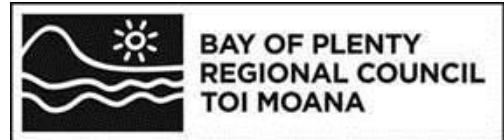
This work is not planned in the Long Term Plan 2018-2028, however it does feature in Arotake Tuatahi 2018/19.

In preparation for the CouncilMARK process, an audit has been carried out against the assessment criteria. A verbal update will be given to the committee to advise on progress to date and next steps.

Sam Rossiter-Stead
Communications Manager

for General Manager, Corporate

20 November 2018



Receives Only – No Decisions

Report To: Audit and Risk Committee

Meeting Date: 28 November 2018

Report From: Chris Ingle, General Manager, Integrated Catchments

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

Executive Summary

The purpose of this report is to provide an update on progress Council is making implementing the recommendations contained in the Rangitāiki River Scheme Review. Recommendations are now either complete or programmed to be completed as part of Council work programmes. A number of these are long-term in nature and will take many years to fully implement.

The Evacuation Planning recommendations are complete and draft triggers under also under development for other scheme rivers. The second and third new monitoring sites in the catchment are due for installation this month (November) and staff gauges have been installed at Edgumbe to help with public record. The College Road stopbank reconstruction is complete and work is underway as a result of geotechnical analysis on other sites. Work with Trustpower is ongoing and communication protocols are 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 will be brought to the December Council meeting. Long term sustainable flood risk solutions for the Rangitāiki are being scoped as a priority in the River Scheme Sustainability Project.

This report completes the annual delegation of a monitoring function from Council to the Audit and Risk committee. It is now recommended that Council focus on the long term strategic management of flood risk in the region and adaptation to climate change, rather than implementation of the Rangitāiki River Scheme Review.

Recommendations

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 2018.

1 Background

The Rangitāiki River Scheme Review (‘the Review’) was received by Council in October 2017 and released to the public. It contains a number of recommended actions, which operate across both short term and long term horizons, and cut across various Council activities.

On 14 December 2017, Council delegated the monitoring of Review implementation to the Audit and Risk Committee for a period of twelve months. Full Council remains the decision-making body when governance decisions are required as part of implementing the Review.

An internal working group was established in November 2017 to coordinate Council response to the recommendations and ensure a joined up response across functional areas.

This is the fourth and final report to the committee completing the annual delegation from Council. Following the committee meeting, a paper to Council in the New Year will outline the recommendations that are still to complete and the process for this. A number of recommendations are long-term in nature and are now programmed to be completed as part of Council’s programmed work.

2 Implementation Progress

The report details progress below by workstream, along with a cross reference by recommendation in the attached appendix. Also included is the work that will complete the recommendations that are yet to close.

2.1 Evacuation Planning

The Review recommended that evacuation plans are developed for Edgecumbe with Regional Council, Civil Defence and Whakatāne District Council working together. It also recommended the consideration of variable river level thresholds and the state of scheme upgrades, as part of this planning.

Flood Evacuation Protocols for Edgecumbe are complete (see Appendix). These protocols set out agreed river trigger levels for action, to manage the risk of flooding from the Rangitāiki River at Edgecumbe, and are set in the Flood Manual. An Evacuation Plan for Edgecumbe has been completed and is now operational. Parties involved in the development of the protocols include: Bay of Plenty Regional Council, Emergency Management Bay of Plenty, Whakatāne District Council, NZ Police, and Fire and Emergency New Zealand.

The response to the Evacuation Planning recommendations contained in the Review is complete and the actions closed. Draft trigger levels are also being developed for the other scheme rivers. Work on developing response protocols is being led by Emergency Management Bay of Plenty.

2.2 Lake Management

The Review recommended Council work with Trustpower to review the Lake Matahina Flood Management Plan and agree protocols around forecasts and timing for safely lowering the lake level in an event. Also included in the recommendations for the Flood Management Plan were developing templates for communication in a flood event. The Review also recommended that Council work with Pioneer Energy around the potential use of Lake Aniwanuiwa to mitigate flood flows, and that consideration be given to the outcomes of the Cardno report into the effect of ramping of river levels.

Council staff have been working with Trustpower over recent months around amendments to the Lake Matahina Flood Management Plan. Communications protocols and templates have been updated, strengthened, and confirmed as recommended. This action is now complete. An exercise was held in August which successfully tested these protocols. Staff from both organisations are now working on the details of protocols to safely and feasibly lower the Lake earlier in an event. This includes the timing and the steps to lower the lake; giving consideration to factors such as forecasts, river flows, dam releases, and dam safety. Work includes analysis of the effect of moving to lower the lake level earlier in an event, using past event data.

The Review also recommended that the target maximum lake level is reviewed. This has been considered as part of the River Scheme Sustainability Project. This work concluded that it was not safe to consider increasing the target maximum lake level as events such as April 2017 do not follow a standard rainfall distribution and thus a safety margin is needed.

Working with Pioneer Energy has been second priority behind Trustpower due to the lower potential flood attenuation in Lake Aniwanuiwa. Initial work on the potential use of Lake Aniwanuiwa for flood attenuation is now complete as part of the River Scheme Sustainability Project and the results are encouraging. This is a long term piece of work, see 2.5 and 2.6.

The work with Trustpower on the Flood Management Plan will be completed as part of Council's Flood Management work programme and work on flood attenuation is programmed as part of the River Scheme Sustainability Project.

Analysis is almost complete for the Rangitāiki Stopbank Erosion (Cardno) report. The report findings will be used to consider Trustpower's contribution to stopbank maintenance and any wider implications as part of the Rivers and Drainage Asset Management Programme.

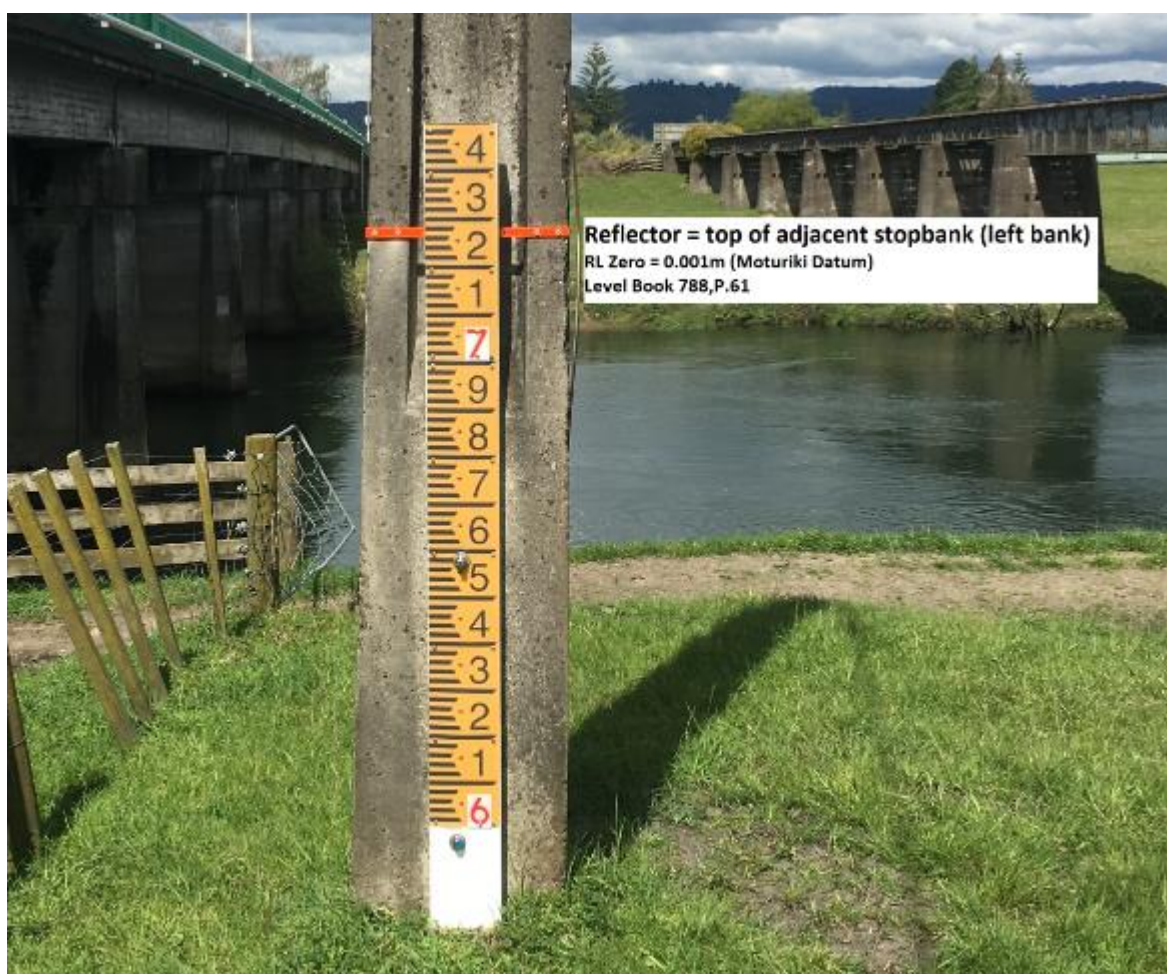
2.3 Monitoring Network

The Review recommended a review of the catchment river and rainfall monitoring network and in particular that consideration be given to spatial coverage and redundancy. It also recommended that the flood hydrology of the Rangitāiki River is updated to include the April 2017 event. Finally, river level staff gauges were recommended to be placed beside critical structures, such as floodwalls, to assist with public record.

Regional Council have been reviewing the monitoring network in the catchment to ensure there is increased spatial coverage and redundancy, and making Long Term Plan provision for this activity. Three new monitoring sites have been identified and the first and most beneficial of these, a new rainfall site, has been installed in the Whirinaki

at Te Whaiti. The remaining two new monitoring sites will be installed in November 2018, in conjunction with soil lysimeters and will provide a dual science purpose.

The flood hydrology of the river has been updated post event and externally reviewed. Staff are working with NIWA, who own sites in the catchment, on increasing the reliability of their sites. Council has proposed as increased level of service for some of these sites, which also provide data to Trustpower. Staff gauges have now been installed at Edgecumbe (see below). Ongoing work with NIWA and scheduled installation of sites, takes place under the Data Services work programme.



2.4 College Road and Catchment Stopbanks

The Review made a number of technical recommendations around the College Road floodwall replacement and on future flood defence designs. It also recommended reviewing downstream floodwall conditions and the use of impermeable barriers.

The College Road stopbank reconstruction project is almost complete with the new stopbank in place and new road sealing as the next step (at time of writing). The reconstruction has included the Review recommendations in the design, Council has engaged with a community technical advisory panel, and the design has been reviewed by the Review panel's geotechnical expert. Once the final completion design is signed off, river trigger levels will rise, as per the Flood Manual (see 2.1).

Four concrete floodwalls on the Rangitāiki have undergone geotechnical investigation. Analysis of these results is underway and almost complete. Work has started on some solutions to some of the findings e.g. removal of culverts under flood structures, which have been identified as potential weak points. Investigations into floodwalls on the other schemes are scheduled for 2018/19 (Whakatane) and 2019/20 (Waioeka/Otara). This work is programmed under the Flood Repairs Programme.

2.5 Upgrades to the Rangitāiki Floodway Infrastructure

The Review made recommendations on the planned upgrades for the Rangitāiki Floodway infrastructure. This included recommendations on the design and timely implementation of preferred options. It also recommended that long-term solutions are progressed in the catchment taking account of climate change and wider ecological and cultural values. This work is being progressed as part of the River Scheme Sustainability Project:

Future options for the upgrade of the infrastructure have been investigated. These include spillway options and ponding areas, in line with the Review recommendations. Technical analysis and community engagement have taken place in the last period on these spillway options. Engagement has included land owners, community board members, technical liaison group members, scheme advisory group members, and general public. Updated technical analysis of options has been completed by Norconsult. A public meeting on the 24th of November will present the updated spillway options and final feedback will be recorded, with a recommendation brought to Council on December 13 2018.

Further one-on-one engagement is ongoing on potential ponding areas. This potential flood plain attenuation, along with potential upper catchment attenuation (see 2.2) is part of the long term approach in line with the MFE guidance to use 'dynamic adaptive pathways' to adapt to climate change. These interventions will be explored as part of the River Scheme Sustainability Project, but may only need to be used as climate change takes effect.

2.6 Long Term Flood Risk Management

The Review recommended Council give high priority to developing and implementing long term flood risk management solutions in the Rangitāiki that take into account climate change and the 'making room for rivers concept'. It also recommended Council ensure that there is comprehensive region-wide coverage and application of the hazard management framework.

Across the region Council has two mechanisms for flood risk management: the River Scheme Sustainability Project, which covers the four river scheme catchments; and the Regional Flood Risk Project, which covers the remaining 48 catchments.

The Rangitāiki is the priority catchment for the River Scheme Sustainability Project. Prioritisation is based on risk with Rangitāiki followed by Whakatāne, then Waioeka/Otara, and lastly Kaituna. The upgrades to the Rangitāiki Floodway are part of medium-term solutions to managing flood risk in the catchment (see 2.5). Longer term solutions, that take into account climate change and the 'making room for rivers' concept, such as flood plain attenuation and upper catchment storage are also being assessed.

The Regional Flood Risk Project involves Council working together with District Councils. This project uses the risk based approach in the Regional Policy Statement (RPS) and works through the District Plans. It is about the avoidance of risk by avoiding inappropriate subdivision and land development on floodable land. Catchment modelling undertaken by Council profiles this risk. In the year ahead modelling is planned in a number of catchments under this project.

The long term flood risk recommendations will be completed through the River Scheme Sustainability Project and the Regional Flood Risk Project.

2.7 Communications and Engagement

The Review recommended that Council engage the community (including Edgecumbe township) when considering future options for the Rangitāiki Floodway and ensure full notification of any consent applications. The Review also found that parts of the community did not understand the flood risk that they live with, and that future engagement needs to include raising awareness of the (residual) risk of living in a flood plain.

Engagement on future options for the Floodway has included the general public, community board members, members of the technical advisory and river scheme liaison groups, and landowners. This has been through a variety of methods from one-to-one's, to field visits, to open days and has been detailed in previous reports.

Community awareness and understanding of residual risk has increased following community involvement in the evacuation protocols. The wider long term work will continue to educate and emphasise risks.

3 Ongoing implementation and monitoring

The recommendations have either been fully completed or are programmed as part of Council work programmes (excluding the one recommendation detailed in 2.2 on target maximum lake levels). Key work programmes for the completion of the remaining recommendations are the River Scheme Sustainability Project, the Regional Flood Risk Project, the Flood Repair Project, and Asset Management.

It is recommended that Council focus on the long term and strategic initiatives to manage flood risk in the region. This overlaps with the Council priority of climate change adaptation. This is now a more useful lens to look through, than the Rangitāiki River Scheme Review implementation.

4 Council's Accountability Framework

4.1 Community Outcomes

This project directly contributes to the Community Outcomes in the Council's Long Term Plan 2018-2028, particularly the Resilience and Safety outcome.

4.2 Long Term Plan Alignment

This work is being undertaken under a number of activities in the Long Term Plan 2018-2028, including: Rivers and Drainage Schemes, Regional Flood Risk Coordination, Emergency Management, Engineering, and Data Services.

Future Budget Implications

Future implementation of Review recommendations are part of the Long Term Plan 2018-2028.

Nic Newman
Principal Advisor




for General Manager, Integrated Catchments




14 November 2018





APPENDIX 1

Implementation Progress by Recommendation






Appendix: Cross-reference of implementation by recommendation, as at November 2018

 Complete
  Underway
  Yet to begin





Summary of Recommendations		Implementation Progress		To be completed as:
The legal and planning framework for flood hazard management				
a.	Efforts to complete the application of the hazard management framework and associated documents should be ramped up to ensure comprehensive cover of all the region.	The River Scheme Sustainability Project has prioritised work in the Rangitāiki catchment. The Regional Flood Risk Project (RFRP) is underway working through the Territorial Authorities (TAs) using the RPS risk based approach and District Plans to avoid hazards.		These are both long term pieces of work with priority catchments based on risk.
b.	Particular attention needs to be paid to areas with high vulnerability, such as small rural townships where resilience may be low.	Research work undertaken with the rural community after the April 2017 event, will help inform future readiness, response and recovery activities in the rural sector.		This ongoing recommendation informs the work of Emergency Management Bay of Plenty.
The College Road floodwall				
c.	An automatic river water level monitoring device should be installed close to any critical structures, such as a floodwall, to enable accurate water levels to be recorded both for design purposes and for public record of flood levels	The Survey and Data Services teams have installed a staff gauge at Edgcombe.		Other sites for staff gauges will be considered as part of the Data Services work programme.
d.	Passive pressure acting around the bottom edge of	This will be incorporated in the next		To be completed as part of the Rivers

	foundation slabs should not be included as resistance in the design of structures, and reference to this at the end of section A3 of the Bay of Plenty Regional Council Guideline 2014/01 “Stopbank Design and Construction Guidelines” should be removed.	Guidelines review in 2018/19.		and Drainage Asset Management Planning programme of work.
e.	The Regional Council should review the design of, and reconsider any impermeable barriers that they have, or are intending to, put in place near to the landward side of any floodwall or stopbank.	Four concrete floodwalls have undergone geotechnical investigation on the Rangitāiki. Analysis of the results and actions are underway. Investigations into floodwalls in the other schemes are programmed. <i>Relates to n.</i>		Actions underway as part of this work include the removal of culverts from beneath flood structures. Completion of this work and investigations into floodwalls in other catchments is programmed under the Flood Repair Programme.
f.	The risk to flood defence structures from uncertainties around ground conditions should be minimised by carrying out comprehensive investigation, design, and construction supervision for all stopbanks and floodwalls. Investigations should be located so as to be representative of the ground on which the structure is to be placed.	This is best engineering practice that is already followed. Refer to Stopbank Guidelines 2014.		Recommendation complete. Current engineering practice incorporates the recommendation. Practice has developed significantly since flood defence construction in the 1960’s and 1970’s.
g.	Flood defence structures should rely on simple and robust designs which minimise the potential impact of natural ground variability. Caution should be taken in the application of sophisticated analyses for stopbanks and floodwalls due to the high potential for natural variability in the ground conditions along their lengths.	This is best engineering practice that is already followed. Refer to Stopbank Guidelines 2014.		Recommendation complete. Current engineering practice incorporates the recommendation. Practice has developed significantly since flood defence construction in the 1960’s and 1970’s.
h.	Residual risk to flood protection structures from variability in ground conditions should be taken into account in land use planning and emergency	Staff are working with Territorial Authorities to ensure that flood		BOPRC staff have worked with TAs to ensure that building floor levels are

	planning, including alert and evacuation procedures.	hazard information is well understood and taken into account in district planning. <i>Also see v.</i>	→	above flood levels should a breach occur.
i.	Specifications drawn up for placement of fill for flood defence walls should recognise that a higher quality of fill is needed for floodwalls than for stopbanks, and should be subject to quality control.	This is best engineering practice that is already followed. Refer to Stopbank Guidelines 2014.	✓	Recommendation complete. Current engineering practice incorporates the recommendation. Practice has developed significantly since flood defence construction in the 1960's and 1970's.
j.	Consideration should be given to the outcome of a study by Cardno that is currently underway into the effects of daily ramping of river levels on river bank stability as against damage from floods, and appropriate action taken to minimise these effects.	The Rangitāiki Stopbank Erosion report is anticipated in the 4 th quarter of 2018.	→	The outcome of the Cardno report will be considered as part of the River and Drainage Asset Management programme of work.
k.	The College Road floodwall should not be replaced with another wall, but ways sought to enable a stopbank to be constructed in its place (noting that the properties closest to the breached wall have been acquired by the Regional Council).	The College Road stopbank reconstruction project is nearing an end, incorporating Review design recommendations.	✓	Recommendation complete.
l.	Floodwalls should not be used in areas characterised by variable and piping prone ground conditions unless specially engineered with extended cutoffs, or riverside blankets to control seepage.	This is best engineering practice that is already followed. Refer to Stopbank Guidelines 2014.	✓	Recommendation complete. Current engineering practice incorporates the recommendation. Practice has developed significantly since flood defence construction in the 1960's and 1970's.

m.	The existing fill at the College Road floodwall and the remnants of the floodwall itself should be removed or thoroughly investigated before construction of a new flood defence structure/stopbank. Investigation and inspection of the fill carried out at that time should be used to provide further insight into its condition and significance to the failure.	This was completed as part of the College Road stopbank replacement project. The investigation into the fill material did not uncover any further information that could be used to provide further insight into its condition and reasons for failure.		Recommendation complete.
n.	The condition of the foundations of the 'downstream' floodwall (89 to 101 College Rd) following the 2017 floods should be investigated	This work is underway. See e.		
Operation of Matahina Dam				
o.	Review the Lake Matahina Flood Management Plan with the aim of: discussing and agreeing a clear protocol around forecasts and timing that requires 70.0mRL as the target lake level. This should be particularly focused on achieving 71.6mRL earlier in an event so there is sufficient time to make the decision to give approval to go to 70.0mRL and to achieving that level without excessive spillway flows; developing a template for use in written communications during flood drawdown mode that includes specific details on the timing and rate of outflows required to achieve specified lake levels at specified times; reviewing the target maximum lake level for determining optimum outflow, with the possibility of using a level between maximum operating level and maximum flood level;	Staff are working with Trustpower on the Flood Management Plan and protocols around lake level management. Modelling the effect of lowering the lake earlier in an event is underway. Templates updated and communications protocols complete and successfully tested. This is not being pursued at this time.	  	This work is ongoing and an engineering hydrologist is progressing the analysis and working with Trustpower under Council's Flood Programme. Recommendation complete. This was considered as part of the River Scheme Sustainability Project. It concluded that it was not safe to consider increasing the target maximum

	requesting Trustpower to consider whether modifications can be made to improve dam safety when lake level drops below 71.6mRL including lengthening the debris boom so that it remains functional at 70.0mRL	Dam safety is a consideration in the work underway around timing and steps to lower the lake, including any modifications.	→	lake level as events such as April 2017 do not follow a standard rainfall distribution and a safety margin is needed.
p.	Review monitoring and maintenance plans for the current rain and river gauge network and improve reliability of operation.	<i>See response to q. below.</i>	✓	Recommendation complete. Work with NIWA is ongoing as part of the Data Services work programme.
q.	Review number and location of upstream rain gauges to improve accuracy and confidence in flood forecasting. Consideration to be given to spatial coverage as well as redundancy to provide back-up if one or more gauges are non-operational during an event. The current coverage appears limited for the Upper Whirinaki and entire western side of the catchment in particular.	Review complete and three new priority sites have been identified. The most beneficial one has been installed and the remaining two are being progressed in conjunction with the science team and will be installed in the November 2018.	✓	Recommendation complete.
r.	Consider additional/back-up river flow gauges to provide better information on upper catchment flows that will provide opportunities for improved optimisation of dam outflows and use of the upper range of Lake Matahina storage during flood events. This could be combined with an enhanced flood forecasting model that includes measured flow data assimilation up to the time of forecast.	See response to q. above. Additional sites will contribute data to flood forecast modelling.	✓	Recommendation complete.
s.	Work with Pioneer Energy to investigate the possible use of storage in Lake Aniwhaniwa during large floods to further reduce downstream peak flows.	This is being investigated and initial results are promising.	→	This work will be completed as part of the River Scheme Sustainability Project. This is a long term potential option.

t.	Work with Pioneer Energy to provide real- time Aniwaniwa outflows and lake levels to the Regional Council during flood events.	This information is already supplied.		Recommendation complete.
Reid's Floodway				
The recommendations for the completion of Reid's Floodway are provided in the section – Long-term strategy and design philosophies.		<i>See recommendations z and aa below</i>		
Evacuation Planning				
u.	Evacuation plans need to be developed to manage the risk of stopbank failures. This will require the evaluation of the “safe” capacity for both overtopping and geotechnical failure modes and planned evacuations for flood events which exceed the assessed “safe” capacity.	Flood Evacuation Protocols are complete. These include variable river trigger levels and corresponding actions, including planned evacuations.		Recommendation complete.
v.	Consideration should be given to variable river level trigger thresholds where the residual risk of geotechnical failures is being managed through evacuation plans. This is in recognition of the importance of antecedent groundwater conditions as well as the duration of elevated river levels in the development of geotechnical failure mechanisms.	<i>As in u. above.</i>		Recommendation complete.
w.	Specific consideration needs to be given where large capital works upgrades, such as Reid's Floodway and Spillway, are not yet completed and operational	Trigger levels will be reviewed on completion of scheme upgrades.		Recommendation complete.

x.	The development of an evacuation plan for Edgecumbe is something to be urgently completed by the Regional Council, Civil Defence and the Whakatāne District Council working together.	An Evacuation Plan for Edgecumbe has been completed by Whakatane District Council, with support from the Regional Council and other Civil Defence agencies.	✓	Recommendation complete.
Long-term strategy and design philosophies				
y.	The Regional Council should give high priority to developing and implementing long term sustainable flood risk management solutions for the Rangitāiki Plains to manage the effects of climate change as well as providing ecological and cultural value to the wider community.	Upgrades to the Rangitāiki Floodway infrastructure will provide medium term flood risk management. This will provide time to develop longer term solutions. Work is underway on the longer term options. <i>Links to a. and b.</i>	→	Long term solutions will be completed as part of the River Scheme Sustainability Project. Investigation includes flood plain attenuation and upper catchment storage. This process is following the MFE 'dynamic adaptive pathways' process.
z.	The stopbank raising for both banks of the upper reach of Reid's Floodway allowed for in the current (2015-25) long term plan would appear to be a poor option given the well-known geotechnical complexities of the underlying geology. It is also considered that stopbank raising is not aligned with the visions and objectives of the Rangitāiki River Document or generally accepted best practice.	Final assessment of options (including a lower fixed crest spillway, and ponding areas) is underway for the Rangitāiki Floodway, that reduce the extent of stopbank raising.	→	A recommendation on a spillway option for construction will be brought to the December 13, 2018 Council meeting.
aa	The work the Regional Council is currently undertaking to examine the feasibility of spill compartments and an additional outlet from Reid's Floodway as well as a lower fixed crest for Reid's Spillway should be pursued using all of the tools available including designations (s166-186,	<i>As in z. above.</i>	→	A recommendation on a spillway option for construction will be brought to the December 13, 2018 Council meeting.

	Resource Management Act, 1991), and if necessary, the Public Works Act 1981.			
bb	The flood hydrology of the Rangitāiki River needs to be updated to include the April 2017 event. It is recommended that a “naturalised” annual maxima flood series is developed that uses estimated Matahina Lake inflows rather than flows at Te Teko as its basis.	The updated hydrology has been completed and has been externally reviewed.	✓	Recommendation complete.
Community engagement				
cc	Engagement of the full community (including Edgecumbe township) should be undertaken when considering further options for Reid’s Floodway. This should include full notification of any notices of requirement and/ or application for resource consent.	Engagement on future options for has included the general public, community board members, members of the technical advisory and river scheme liaison groups, and landowners. This has been through a variety of methods from one-to-one’s, to field visits, to open days.	→	The remaining work will be completed as part of the Rangitāiki Floodway upgrade and engagement is programmed as part of this.



Receives Only – No Decisions

Report To: Audit and Risk Committee

Meeting Date: 28 November 2018

Report From: Fiona McTavish, Chief Executive

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 year;
- The status of follow up of internal audit recommendations and management actions to 30 September 2018.

Recommendations

That the Audit and Risk Committee:

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

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 Bay of Plenty Regional Council's co-sourced internal audit approach. It includes:

- The status of internal audit reviews in the current year;
- The status of follow up of internal audit recommendations and management actions to 30 September 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 that meeting, one review has been completed, Maritime Disaster Preparedness with the findings presented in a separate report. The following table summarises the status of all internal audit reviews for 2018/19:

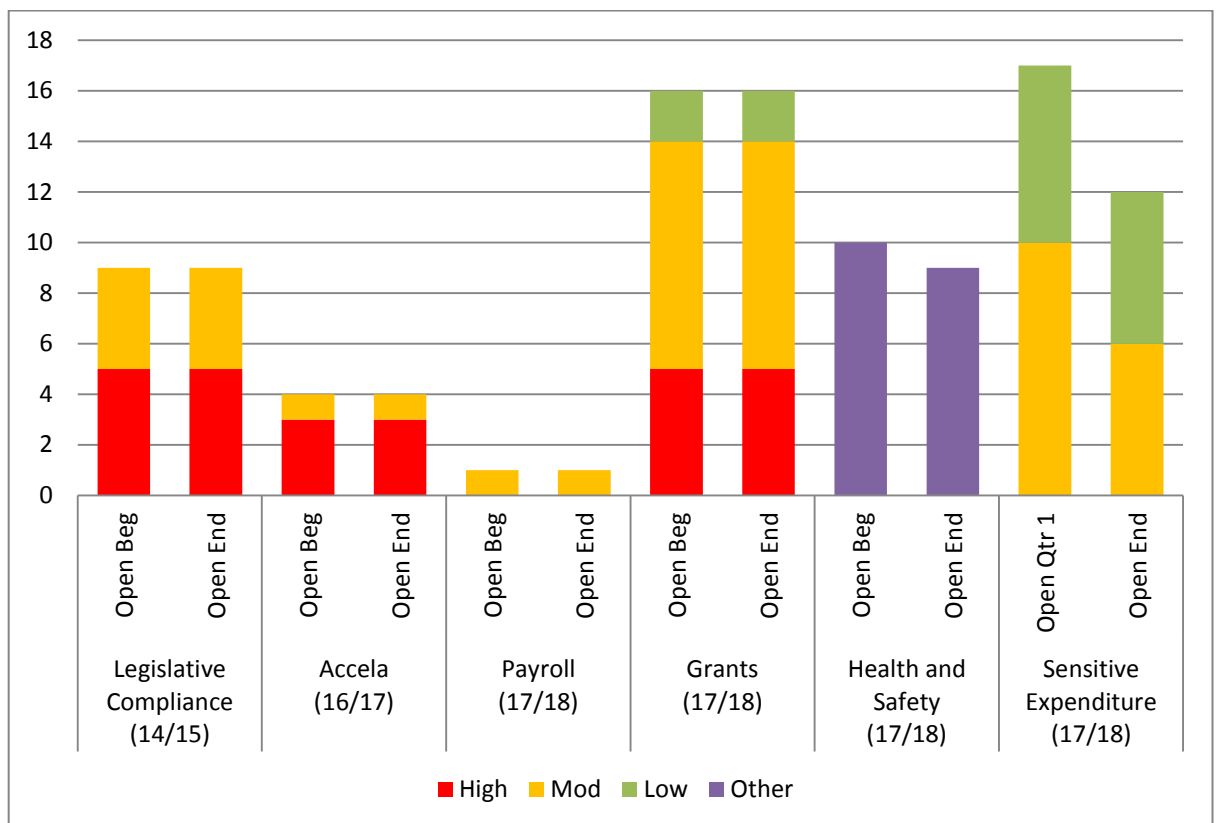
Review	Field work	GM Sponsor	Status	Status of Internal Audit					
				Planning / Draft Scope	Final Scope	Fieldwork	Draft Report	Mgmt Actions	Final Report
Maritime Disaster Preparedness	BOPRC	Regulatory Services	Complete	Complete	Complete	Complete	Complete	Complete	Complete
Civil Defence Response Capability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

3 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 July 2018) there were 40 open management actions.

During the quarter, 21 actions were added, relating to the Sensitive Expenditure review, this review was on the 2017/18 Work Plan and completed in the 2018/19 year.

51 actions were open at 30 September 2018, the majority of these relate to findings in Grants (sixteen), Sensitive Expenditure (twelve) and Health and Safety (nine). A summary of the open actions are:



Of the open actions (16 out of 51) are past their original due date. The overdue actions relate predominately to Legislative Compliance Framework (nine) and Accela Phase One (four).

Legislative Compliance – Internal Audit is working with the Legal team, including regular implementation meetings, to ensure these recommendations are progressing.

The Accela actions have made significant progress towards being completed by the amended target date of 31 December 2018.

4 Council's Accountability Framework

4.1 Community Outcomes

This work directly contributes to the Regional Collaboration & Leadership Community Outcome in the Council's Long Term Plan 2018-2028.

4.2 Long Term Plan Alignment

This work is planned under the Governance Services activity in the Long Term Plan and Annual Plan 2018/19.

Current Budget Implications

-Internal Audit activities carried out in 2018/19 have been accommodated within the budget provision for the Chief Executive's Office for the year.

Future Budget Implications

The Long Term Plan 2018-2028 contains budget for delivery of the co-sourced Internal Audit Work Plan. This includes staff resources and provision for external resource for specialist reviews.

Steven Slack
Principal Internal Auditor

for Chief Executive

19 November 2018