

**I give notice that
an Audit & Risk Committee Meeting will be held on:**

Date:	Monday, 29 October 2018
Time:	10.00am
Location:	Council Chamber 107 Heuheu Street Taupō

AGENDA

MEMBERSHIP

Chairperson Mr Anthony Byett

Deputy Chairperson Cr Barry Hickling

Members Mayor David Trewavas
Cr Rosie Harvey
Cr Rosanne Jollands
Cr Anna Park
Cr Maggie Stewart

Quorum 4

Gareth Green
Chief Executive Officer

Order Of Business

1	Apologies	
2	Conflicts of Interest	
3	Confirmation of Minutes	
3.1	Audit & Risk Committee Meeting - 23 July 2018	3
4	Reports	
4.1	Audit New Zealand Final Management Report for Year Ended 30 June 2018	4
4.2	MPI Audit of Quality Management System under the Food Act 2014	5
4.3	6 Monthly Review of Sensitive Expenditure.....	7
4.4	Insurance Capability and Incident Management Update	9
4.5	Review of Risk Management Charter	11
4.6	Draft Terms of Reference / Scope for Internal Audits - Procurement and Treasury Management	12
5	Confidential Business	
5.1	Confirmation of Confidential Portion of Audit & Risk Committee Minutes - 23 July 2018	13
5.2	Litigation Update	13

3.1 AUDIT & RISK COMMITTEE MEETING - 23 JULY 2018

Author: Shainey James, Democratic Services Officer

Authorised by: Tina Jakes, Head of Democracy, Governance and Venues

RECOMMENDATION(S)

That the minutes of the Audit & Risk Committee meeting held on Monday 23 July 2018 be confirmed as a true and correct record.

ATTACHMENTS

1. Audit & Risk Committee Meeting Minutes - 23 July 2018

4.1 AUDIT NEW ZEALAND FINAL MANAGEMENT REPORT FOR YEAR ENDED 30 JUNE 2018

Author: Brian Fox, Head of Regulatory and Risk

Authorised by: Gareth Green, Chief Executive Officer

PURPOSE

To receive Audit NZ's final Management Report for Taupō District Council for the year ended 30 June 2018.

CONCLUSION

It is recommended that the report be received.

RECOMMENDATION(S)

That the Audit & Risk Committee receives the final Management Report for Taupō District Council for the year ended 30 June 2018.

ATTACHMENTS

1. Audit New Zealand Final Management Report for year ended 30 June 2018 (A2331706)

4.2 MPI AUDIT OF QUALITY MANAGEMENT SYSTEM UNDER THE FOOD ACT 2014

Author: Scott Devonport, Consents and Regulatory Manager

Authorised by: Brian Fox, Head of Regulatory and Risk

PURPOSE

To present to the Audit and Risk Committee the outcome of the review undertaken by Ministry for Primary Industries [MPI] on Taupō District Council's Quality Management System [QMS]. A QMS for verifications is required to be a registered agency in accordance with the Food Act 2014 [The Act].

DISCUSSION

Taupō District Council applied through the 'fast track' application process, that was available to Territorial Authorities, to become a registered agency that enabled qualified environmental health officers to verify National Programmes under The Act.

While not obliged to undertake these verifications, MPI have acknowledged that there is a significant shortfall of suitably qualified practitioners to undertake this work in the private sector. Also the cost to local businesses in the District was significantly higher when using private verifiers. As part of the 'fast track' process, a QMS was required to be developed.

The QMS was provided to MPI as part of a request to review the progress of the manual in March 2018 and the outcome of the review was provided back to council on the 17 September 2017.

There were 98 specific points that were assessed and the following is the outcome of those:

- 23 points rated at "Good"
- 7 points rated as "Minor Improvements Required"
- 9 points rated as "Needs Improvements (development)"

Key comments are as follows:

- Overall the QMS is heading in the right direction and already a number of improvements have been identified, mainly internal audit and peer review processes.
- A procedure is required to conduct regular reviews of the entire QMS
- Assessment is required around capacity of workloads, specifically around any contractual arrangements
- Assessing competency of officers for required verification work (ensuring work undertaken is within competency levels).
- Comments on reporting requirements to MPI and relevant registration authority when undertaking work for another area not within our own District.

Generally the areas that require some additional work were already acknowledged as a 'work in progress' and are in the process of being completed.

As a registration authority, we have also had two assessments undertaken onsite by an independent third party verifier, and by a senior officer of MPI, to assess suitability of staff competency and wider organisational support/capacity for the QMS. The formal report from MPI from the onsite assessment is still to be provided, but feedback at the assessment was positive in that we had competent officers and the QMS was well developed and supported.

The full copy of the review from MPI is attached.

CONCLUSION

Given the relatively new requirements to develop a QMS under The Act and the very little resource available to undertake this work, the review comments from MPI are considered a very favourable outcome, with 75% of the points assessed considered good or only requiring minor improvement. These remaining points will be addressed and as a registration authority the QMS can now be implemented and continuous improvements put into practice.

Council being a registration authority has significant benefits for the business community as it keeps costs affordable for verifications of National Programmes. It also provides the public with certainty that these verifications are being undertaken by skilled local people that are not in a position of bias or conflict.

RECOMMENDATION(S)

That the Audit & Risk Committee receives the outcome of the review by MPI on the Quality Management System under the Food Act 2014

ATTACHMENTS

1. QMS Review undertaken by MPI

4.3 6 MONTHLY REVIEW OF SENSITIVE EXPENDITURE

Author: Jamie Dale, Risk Manager

Authorised by: Brian Fox, Head of Regulatory and Risk

PURPOSE

To update elected members of the findings of the Sensitive Expenditure policy compliance review and highlight any areas for improvement.

EXECUTIVE SUMMARY

This report is a governance summary of a compliance review of the policy for the 6 months period from 1 January 2018 to 30 June 2018.

This report covers the second half of the 2017/18 financial year.

As in previous reviews, the review process and methodology has been undertaken after discussion with Council's external auditors Audit NZ.

Previous reviews have been limited to positions with delegated financial authority of \$25,000 or greater. With the latest updates to delegated financial authorities the decision was made to extend the review to include all positions.

RECOMMENDATION(S)

That the Audit & Risk Committee receives the information in the Sensitive Expenditure Report (A2321532) for the period 1 January 2018 to 30 June 2018.

BACKGROUND

In 2012 Audit NZ raised matters relating to formal internal reviews of sensitive expenditure in its end of year management letter. Council management agreed with the points raised by Audit NZ and in conjunction with them developed a methodology for undertaking such reviews.

This compliance review for the period 1 January to 30 June 2018 considered all expenditure and reimbursements authorised by staff via the electronic purchase order system, payroll reimbursements and all purchases made by credit card by the Taupō District Council.

Previous reports only reviewed expenditure approved by persons in sensitive positions. With the agreement of Audit New Zealand, sensitive positions were classified as any individual with delegated financial authority exceeding \$25,000. Recent updates to delegated financial authorities saw the number of persons considered to be in sensitive positions expanded significantly and net effect saw the vast majority of sensitive expenditure approvals coming from persons with \$25,000 or greater delegated authority. So for the purposes of ease and a more robust assessment the decision was to review all sensitive expenditure regardless of the approvers level of delegated financial authority.

CONSIDERATIONS**Alignment with Council's Vision**

Council's vision is 'to be the most prosperous and liveable district in the North Island by 2022'. This is accompanied by a core set of values to underpin decision-making, the following of which are relevant to this particular proposal: Quality.

Financial Considerations

The financial impact of the proposal is estimated to be \$Nil.

Legal Considerations

None.

Policy Implications

There are no known policy implications.

Māori Engagement

Council is bound by various Acts to consult and/or engage with Māori, including a duty to act reasonably and in good faith as a Te Tiriti ō Waitangi partner. Equally, Council has a responsibility to develop and proactively foster positive relationships with Māori as key stakeholders in our district, and to give effect to the principles of Te Tiriti ō Waitangi including (but not limited to) the protection of Māori rights and their rangatiratanga over tāonga. While we recognise Māori in general, we also need to work side by side with the three ahi kaa / resident iwi of our district.

Although good faith does not necessarily require consultation, it is a mechanism for Council to demonstrate its existence and commitment to working together as district partners. Appropriately, the report author acknowledges that they have considered the above obligations including the need to seek advice, guidance, feedback and/or involvement of Māori on the proposed recommendation/s, objective/s, project/s or service/s outlined within this report.

Risks

There are no known risks. The Council's risks in this are minimised as a result of this compliance audit of sensitive expenditure and recommendations.

SIGNIFICANCE OF THE DECISION OR PROPOSAL

Council's Significance and Engagement policy identifies the following matters that are to be taken into account when assessing the degree of significance of proposals and decisions:

- a. The level of financial consequences of the proposal or decision;
- b. Whether the proposal or decision will affect a large portion of the community or community of interest;
- c. The likely impact on present and future interests of the community, recognising Maori cultural values and their relationship to land and water;
- d. Whether the proposal affects the level of service of an activity identified in the Long Term Plan;
- e. Whether community interest is high; and
- f. The capacity of Council to perform its role and the financial and other costs of doing so.

Officers have undertaken a rounded assessment of the matters in clause 11 of the Significance and Engagement Policy (2016), and are of the opinion that the proposal under consideration is of low importance.

ENGAGEMENT

Taking into consideration the above assessment, that the decision is of a low degree of significance, officers are of the opinion that no further engagement is required prior to Council making a decision.

COMMUNICATION/MEDIA

No communication/media required. Review findings will be communicated to Audit NZ and detailed working papers will be available for their perusal during their annual audit as has been the case previously.

CONCLUSION

The ongoing reviews of sensitive expenditure will aid Council's overall risk management profile and is entirely in keeping with the current Risk Management Charter.

ATTACHMENTS

1. Sensitive Expenditure Report for the six months to 30 June 2018 (A2321532)

4.4 INSURANCE CAPABILITY AND INCIDENT MANAGEMENT UPDATE

Author: Jamie Dale, Risk Manager

Authorised by: Brian Fox, Head of Regulatory and Risk

PURPOSE

To update the Audit and Risk Committee on key findings from the Insurance Capability and Incident Management Workshop organised AON in conjunction with Risk Logic and held in Auckland on 18 September 2018.

DISCUSSION

Council's Head of Regulatory & Risk, Brian Fox and Risk Manager, Jamie Dale attended a workshop on insurance and incident management hosted by Council's current insurers, AON and an Australasian company called Risk Logic who specifically deal with business continuity, crisis management, emergency management and incident management. AON are working with Risk Logic to help their clients manage their risks better and obtain better outcomes in the changing insurance market.

The Current Insurance Market

The insurance market is changing in response to new evolving risks. The New Zealand insurance industry is small by international standards but is affected by both local and international events. Excluding international events, in New Zealand the previous year's gross loss ratio (percentage of premiums/claims) has increased from 64% to 98% in the non-life sector (property, vehicles, professional indemnity etc.) and this current year claims are already at the previous year's levels. Generally insurers work on between a 40 – 60% loss ratio. Add the international situation and things get a lot more complicated. What this means is that insurers and reinsurers are not achieving the required loss ratios required to remain viable and something has to change.

The options for insurers and reinsurers are:

1. Increase premiums,
2. Reduce their exposure and claim pay-outs to acceptable levels,
3. Get out of the business

We are currently seeing all of these three options in some form affecting the market. Insurance premiums are going up, an increasing number high risk activities are no longer insurable and insurers are withdrawing completely from the market. The point was made that New Zealand probably considers obtaining insurance to transfer risk as a right. This is definitely not the case and moving forward insurers will be seeking a lot more information on how the proposer manages their risks. Simply filling in insurance proposal forms will not be enough and if you are fortunate enough to obtain insurance cover for risks you are seeking to transfer to a third party, you will be paying a lot more for it. Increases in excess of 100% in premiums and limitations on cover are not uncommon.

The Future

To maintain adequate levels of insurance at an acceptable price we will need to differentiate ourselves and stand out from the crowd and mitigate our risks by focussing on risk management which will ultimately lower our costs in the long run. More emphasis on the identification of potential risks and either eliminating or reducing the likelihood or consequences to an acceptable level rather than dealing with the effects of the risk with insurance will be required. Insurance must be seen as part of the solution, not the solution.

Crisis management and business continuity management are areas AON and Risk Logic see businesses can stand out from the crowd and mitigate the effects of a risk by reducing the impact of and losses a risk could cause. They used Dreamworld and Volkswagen as examples where planned and well executed responses to a situation were not followed and the negative effects and losses they suffered were compounded due to a lack of an appropriate response plan.

Good planning to increase resilience by mitigating risks and improving outcomes (reducing the effects) before an incident strikes will reduce the risk profile of organisations and allow our insurance brokers to more easily source appropriate insurance products and at more competitive prices.

CONCLUSION

The insurance market is changing rapidly both nationally and internationally. The claims to premium ratios are unsustainable in the current climate and must change.

Insurers only cover uncertainty. Many of the factors contributing to the increasing claim pay-outs are moving from uncertainty to certainty and insurers are responding accordingly.

To retain appropriate insurance cover organisations need to take measures to mitigate risks and improve outcomes.

How New Zealanders currently use insurance to transfer the risk to third parties is unsustainable. In the near future many organisations and individuals will not be able to source appropriate and/or insurance unless they take appropriate steps to identify and manage risks.

RECOMMENDATION(S)

the Audit & Risk Committee receives the update and the Powerpoint slides from the Insurance Capability and Incident Management workshop held on 18 September 2018.

ATTACHMENTS

1. Insurance Capability and Incident Management - Powerpoint Slides

4.5 REVIEW OF RISK MANAGEMENT CHARTER

Author: Jamie Dale, Risk Manager

Authorised by: Brian Fox, Head of Regulatory and Risk

PURPOSE

To adopt the Risk Management Charter in accordance with the Audit & Risk Committee's Terms of Reference.

EXECUTIVE SUMMARY

The Risk Management Charter provides the framework for implementing and maintaining a Risk Management system that reflects best practice and ensures that sound risk management practices are incorporated into Council's planning and decision making processes.

The Audit & Risk Committee Terms of Reference include review of the Risk Management Charter on an annual basis. Several updates were made to the Charter at its last review and this was done in conjunction with Pricewaterhouse Coopers. It is proposed that no changes be made to the document at this time.

RECOMMENDATION(S)

That the Audit & Risk Committee adopts the attached Risk Management Charter for the 2018-19 year.

ATTACHMENTS

1. Risk Management Charter 2017-2018 (A2090699)

4.6 DRAFT TERMS OF REFERENCE / SCOPE FOR INTERNAL AUDITS - PROCUREMENT AND TREASURY MANAGEMENT

Author: Brian Fox, Head of Regulatory and Risk

Authorised by: Gareth Green, Chief Executive Officer

PURPOSE

To approve the draft Terms of Reference for the procurement and treasury management audits. The draft documents are attached for consideration.

RECOMMENDATION(S)

That the Audit & Risk Committee approves the following documents:

1. The draft Terms of Reference for the procurement audit.
2. The draft Terms of Reference for the treasury management audit.

ATTACHMENTS

1. Procurement Policy audit draft Terms of Reference
2. Treasury Management Policy audit - draft Terms of Reference

5 CONFIDENTIAL BUSINESS

RESOLUTION TO EXCLUDE THE PUBLIC

I move that the public be excluded from the following parts of the proceedings of this meeting.

The general subject matter of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter, and the specific grounds under section 48(1) of the local government official information and meetings act 1987 for the passing of this resolution are as follows:

General subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Ground(s) under Section 48(1) for the passing of this resolution
<p>Agenda Item No: 5.1 Confirmation of Confidential Portion of Audit & Risk Committee Minutes - 23 July 2018</p>	<p>Section 7(2)(a) - the withholding of the information is necessary to protect the privacy of natural persons, including that of deceased natural persons</p> <p>Section 7(2)(g) - the withholding of the information is necessary to maintain legal professional privilege</p> <p>Section 7(2)(h) - the withholding of the information is necessary to enable [the Council] to carry out, without prejudice or disadvantage, commercial activities</p>	<p>Section 48(1)(a)(i)- the public conduct of the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding would exist under section 7</p>
<p>Agenda Item No: 5.2 Litigation Update</p>	<p>Section 7(2)(g) - the withholding of the information is necessary to maintain legal professional privilege</p>	<p>Section 48(1)(a)(i)- the public conduct of the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding would exist under section 7</p>

I also move that *[name of person or persons]* be permitted to remain at this meeting, after the public has been excluded, because of their knowledge of *[specify]*. This knowledge, which will be of assistance in relation to the matter to be discussed, is relevant to that matter because *[specify]*.