



**The Meeting of the  
Audit and Risk Committee will be  
held on Tuesday 9 August 2022  
commencing at 1.00pm**

## **AGENDA**

Meeting ID: 263 978 6884  
Passcode: 190208

## **AUDIT AND RISK COMMITTEE**

His Worship the Mayor - Malcolm Campbell

Councillor C J Ion

Councillor A Rangihika

Councillor F K N Tunui

Councillor D Sparks

Philip Jones – Consultant - P J Associates (Chair)

**Kawerau District Council Minutes of an  
Audit and Risk Committee held on 7 June 2022  
commencing at 1.00pm**

**Present:** Philip Jones – P J Associates (Chair) (Via Zoom)  
His Worship the Mayor – M J Campbell  
Councillor F K N Tunui  
Councillor C J Ion  
Councillor D Sparks  
Councillor A Rangihika

**In Attendance:** Chief Executive Officer (R George)  
Group Manager, Finance & Corporate Services (P Christophers)  
Group Manager, Regulatory and Planning (Michaela Glaspey)  
Health and Safety Officer (Paul Snook)  
Administration Officer (T Barnett)

**Apologies**

No apologies were received.

**Declarations of Conflict of Interest**

No conflicts of interest were received.

**1 Occupational Health and Safety Management System Status (Health and Safety Officer) (509500)**

The Committee reviewed the Health and Safety Officers report.

**Resolved** **His Worship the Mayor / Councillor Rangihika**

*That the report "Occupational Health and Safety Management System Status" is received.*

**2 Treasury Report to 30 April 2022 (Group Manager, Finance and Corporate Services) (110551)**

The Committee reviewed the Treasury Report to 30 April 2022.

**Resolved** **Councillors Ion / Chair Jones**

*That the report "Treasury Report to 30 April 2022" is received.*

**3 2021 / 2022 Annual Report Timetable (Group Manager, Finance and Corporate Services) (110400)**

The Committee discussed the report “2021 / 2022 Annual Report Timetable”.

**Resolved**

**Councillors Sparks / Rangihika**

- 1. That the report “2021 / 2022 Annual Report Timetable” is received.*
- 2. That the Audit and Risk Committee concluded no further amendments were needed at this time.*

**4 Annual Plan Performance for the 9 Months Ended 31 March 2022 (Group Manager, Finance and Corporate Services) (110400)**

The Committee reviewed the Annual Plan Performance for the 9 Months Ended 31 March 2022.

**Resolved**

**Deputy Mayor Tunui / Councillor Ion**

*That the report “Annual Plan Performance for the 9 Months Ended 31 March 2022” is received.*

**5 Insurance Policies – 2021 / 22 (Group Manager, Finance and Corporate Services) (201000)**

The Committee reviewed the additional information requested regarding Councils Insurance Policies – 2021 / 22.

**Resolved**

**His Worship the Mayor / Councillor Rangihika**

*That the report “Insurance Policies – 2021 / 22” is received.*

***Meeting closed 1.45pm***

P Jones

**Chairperson**

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**Meeting:** Audit and Risk Committee

**Meeting Date:** 9 August 2022

**Subject:** Occupational Health and Safety Management System Status

**File No:** 509500

## 1 Executive Summary

This report provides a general overview of the status of the Occupational Health & Safety Management System (OHSMS).

Kawerau District Council's Top 5 Hazards identified by workers					
Hazard	Raw Risk Score	Residual Risk Score	Status	Comment	
<b>Public/People/Customers</b>	15 High	10 Moderate	<b>Completed</b>	Target is: 20 Control Measures Completed	
				Control Measures	
				Completed	20
				Underway	0
<b>Stress</b>	15 High	10 Moderate	<b>Completed</b>	Target is: 25 Control Measures Completed	
				Control Measures	
				Completed	25
				Underway	0
<b>Slips, Trips and Falls</b>	15 High	10 Moderate	<b>Completed</b>	Target is: 24 Control Measures Completed	
				Control Measures	
				Completed	24
				Underway	0
<b>Lone Working</b>	15 High	10 Moderate	<b>Underway</b>	Target is: 22 Control Measures Completed	
				Control Measures	
				Completed	21
				Underway	1
<b>Manual Handling</b>	15 High	12 Moderate	<b>Completed</b>	Target is: 27 Control Measures Completed	
				Control Measures	
				Completed	27
				Underway	0
				Not Started	0

Above is the top five hazards table based on the results of the staff survey in October 2020.

Data in this report aligns with Council's Financial Year period to 30 June 2022. Source data is identified and accessed from VAULT/Damstra Health and Safety software.

New Zealand remains at COVID – 19 traffic light Orange as of midnight Wednesday 13 April 2022 and the organisation continues to monitor the situation. Risk assessments relating to the Staff COVID Vaccination Policy and staff roles are complete. Staff continue to follow safety measures implemented.

Kawerau District Council ('KDC') has an ongoing commitment to Health and Safety practices and investment in health and safety management with a focus on continuous improvement.

Health and safety related policies continue to go through a review cycle by the Health and Safety Committee (HSC) and Leadership team.

Health and Safety Reports are scheduled to managers for review, evaluation and planning. Hazard management is a responsibility of all staff and reviews continue with workgroups and managers.

Annual occupational health monitoring for 2022 is nearing completion. The annual Face fit testing was completed in June with a follow up session in August for those unable to attend and the Drug and Alcohol testing continues as per policy.

Staff are aware of provided access to:

- Free flu and COVID – 19 vaccinations
- Free and confidential Employee Assistance Programmes
- Flexible working arrangements and reminders to stay home if sick

An internet based staff wellbeing platform is being reviewed as a possible option for improving the overall wellbeing and culture of staff. This covers all areas of wellbeing including healthy eating, exercising and mental wellness.

There have been no notifiable events reported to WorkSafe during this period. Injuries requiring First Aid, Medical treatment or no treatment have trended down compared to previous years.

Near Miss reporting for 2021 – 2022 was 29%, slightly lower than the previous year by 3% but there were less events recorded overall 2021 – 2022. Previous years identify similar numbers but the Pools being closed for essential maintenance recently has resulted in lower public numbers. Staff and public/customers are still the main person types involved in events.

Sites recording events are consistent with previous years – Pools and Recreation identified as the top two.

The HSC successfully introduced the new Staff Health and Safety Awards scheme supported by the CEO and Leadership team. Awards were presented by His Worship the Mayor, CEO and Group Manager Regulatory and Planning on 30 June at the Maurie Kjar Swimming Pools.

Health and Safety Committee (HSC) meetings continue as scheduled.

Face-to-face training for staff has resumed with courses scheduled into November. As part of maintaining Emergency Preparedness, Fire Warden training and refresher training is scheduled for August.

Four Contractors were audited during this report period without issue. These were two Civil Engineers, an Arborist and a Fencing contractor.

## Priorities

The table below identifies current areas of work that are priorities.

	Priority Task	Status
1	Covid - 19 Pandemic Response	Jan 2020 Ongoing
2	Hazard, Identification, Assessment and management	June 2016 Ongoing
3	Information, Training and Supervision	June 2016 Ongoing
4	Worker Participation in Health and Safety Management	June 2016 Ongoing
5	Near Miss, Incident & Injury Reporting, Recording & Investigation	June 2016 Ongoing
6	Contractor Health and Safety Management	June 2016 Ongoing
7	Emergency Planning and Readiness	June 2016 Ongoing
8	Employer Commitment to Safety Management Practices	June 2016 Ongoing
9	Planning, Review and evaluation	June 2016 Ongoing

## **2 Lead and Lag Indicators**

Lead Indicators identify activities aimed at preventing accidents and maintaining health and safety like induction, training, hazard management, monitoring and prompt/thorough event investigation.

Near Miss events are considered leading indicators because workers demonstrate awareness and understanding that a near miss represents the potential for harm, loss or damage should there be a repetition of the same or similar event.

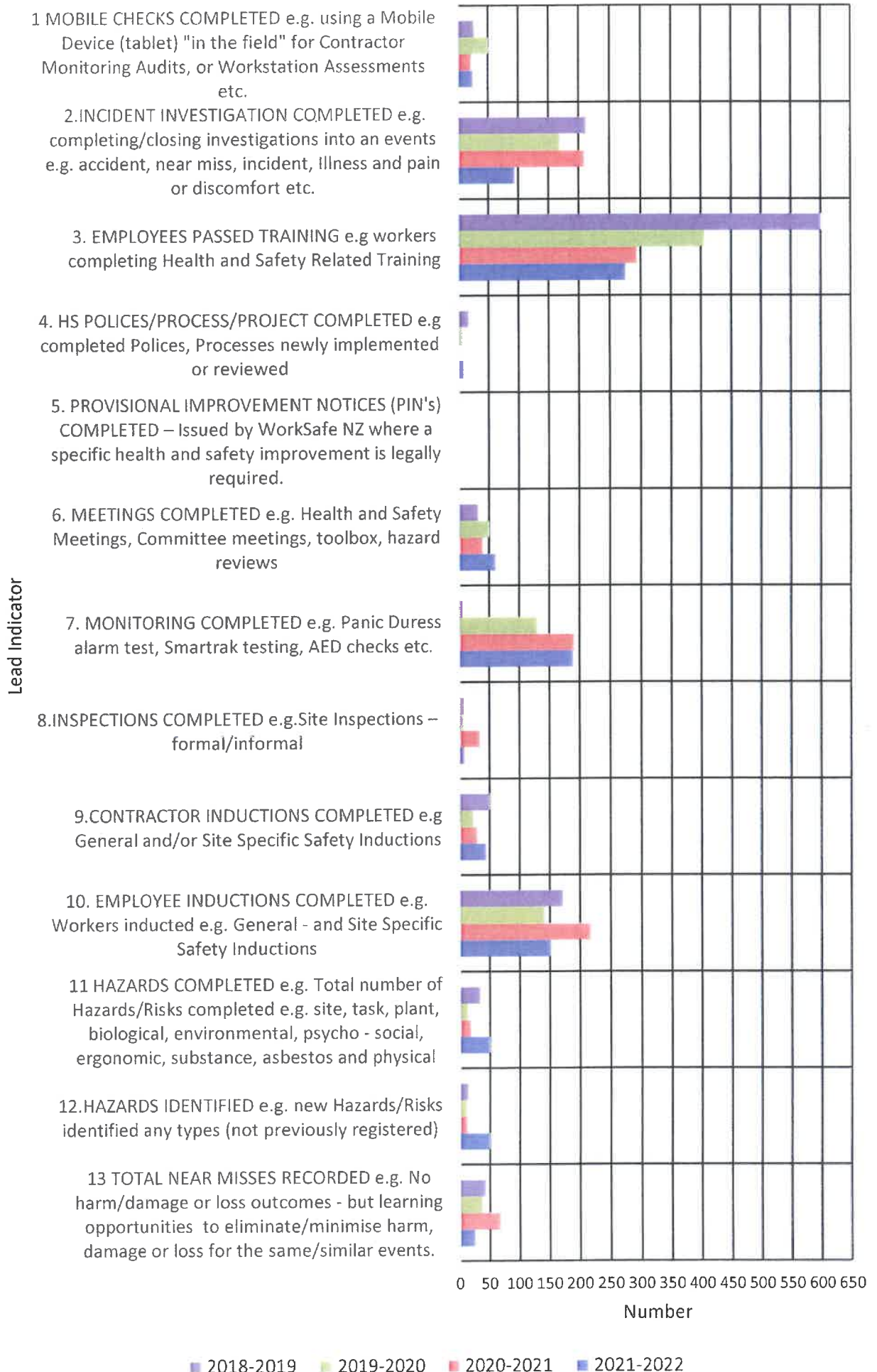
Near Miss events when reviewed will identify learning and continuous improvement opportunities, potentially adding to the preventative approach in Health and Safety management.

Lag Indicators identify data that has resulted from a work related injury or illness.

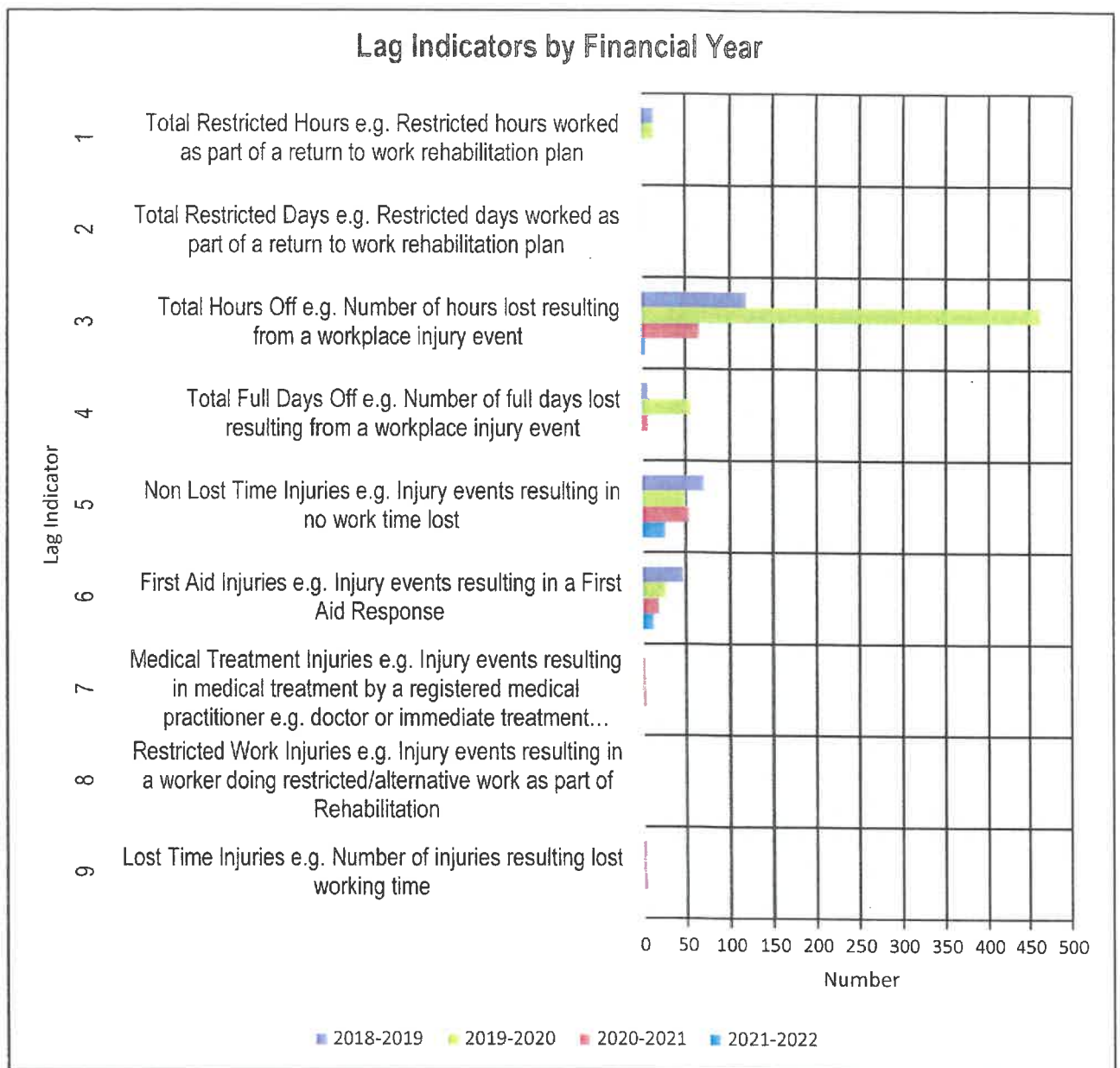
First aid events, medical events and lost working time are identified.

The bar graphs below identify lead and lag indicators by financial year.

## Lead Indicators by Financial Year







The 2019 - 2020 total hours and days off results identify as higher than other years because of one notifiable worker accident and the rehabilitation time.

### 3 Employer Commitment to Safety Management Practices

Policies are developed and reviewed by the Health and Safety Committee (HSC), Health and Safety Representatives (HSR's) and their workgroups. The Leadership Team complete a final review and approval.

Policies are reviewed at least triennially, unless an opportunity for improvement is identified earlier. The Health and Safety Policy remains on an annual review cycle and is signed by the CEO and the Leadership team.

The CEO and the Leadership Team supported the introduction of the new Health and Safety Awards Scheme proposed by the HSC and provision of an annual staff wellness day.

## Organisational Policies/Documents

The table below identifies Policy Documents under review.

Organisational Policy/Document	Status
Rehabilitation Policy	Review 01/03/2022 LT (Underway)
HSR Induction Manual	Slideshow Developed for HSC Review 29/08/2021 HSO. (Underway)
HSR Position Description	Review 01/04/2022 LT (Underway)
Visitor Management Policy	Review 01/02/2022 LT (Underway)
Working Alone Policy	Review 05/06/2022 HSC – (Underway)
Bomb threat, Lock down & Suspicious mail policy	Review 18/06/2022 LT (Underway)

The Drug and Alcohol Policy is due for its triennial review in August 2022.

#### **4 Planning, Review and Evaluation**

VAULT/Damstra status reports are scheduled electronically to managers, supervisors and Health and Safety Representatives for review.

#### **5 Hazard Identification, Assessment and Management**

Work associated with managing the top 5 hazards is outlined below:

1. Public/People
2. Stress
3. Slips, Trips and Falls
4. Lone Working
5. Manual Handling

##### 1 Public/People

Face to face, training for Customer Conflict Awareness is scheduled 27 June.

##### 2 Stress

KDC maintains a policy for the management of Workplace Stress and Fatigue and the hazard is recorded in the register. The policy is scheduled for review in August 2022.

Employee assistance support programmes are in place for staff to freely and confidentially access 24/7.

##### 3 Slips, Trips and Falls

The risk of death, injury, damage or loss from slipping tripping or falling is recorded with safety controls on the hazard register. Staff ownership of slip and trip hazards is strongly encouraged to help maintain a safe workplace.

#### 4 Lone Working

KDC maintains a policy and process for Lone Working Management and this is recorded in the KDC Hazard register. The Working Alone Policy is under review by the HSC.

GPS tracking devices are in use for lone workers in higher risk work situations. The systems are monitored by staff and tested weekly.

#### 5 Manual Handling

The risks associated with manual handling and safety controls is recorded on the hazard register.

Early pain, discomfort and injury reporting is encouraged along with seeking professional medical advice.

#### Top 5 Hazards as per risk assessment and staff perception

The staff evaluation method is based on personal perception, knowledge and experience, which is valued by the organisation.

The organisation engages with the workforce to understand staff perceptions of danger. Learning from this has resulted in commitment to invest in resources like site improvements, technology, equipment, training, policies and processes. Learning and opportunities to improve continue.

#### COVID - 19

Risk assessments for the Omicron variant and workers roles are complete and aligned with Government health advice.

#### Health Monitoring

Annual Occupational Health Monitoring is currently underway for 2022.

#### Health & Wellbeing

The annual flu vaccination remains on offer to staff currently.

Staff are reminded by the Leadership team to access the organisation's free and confidential counselling services as needed.

The Bay of Plenty Local Authority Shared Services Health and Safety Advisory Group (BoPLASS – HaSAG) have entered an agreement for a group price discount for My Every Day Wellbeing. This is an internet based platform that covers anything and everything that contributes to building and maintaining a healthy lifestyle. This is currently being evaluated for suitability and accessibility for staff.

Face-Fit testing and training for staff using respirators went ahead 15 June with another session planned for 22 July for those unable to attend. The fit test ensures our staff have a mask to skin seal preventing the ingress of airborne contaminants aligned to standard AS/NZS 1715 the selection and Use of Respirators.

## Drug & Alcohol Policy

Tests identified in the policy are:

- Pre-Employment
- Random (5% of staff per month)
- Reasonable Grounds
- Post Incident testing

## Workplace Monitoring

Methane and Hydrogen Sulphide gas levels are continually monitored at designated premises.

## Information, Training and Supervision

Investment in Health and Safety training remains relevant to the organisation's needs. Face to face training has resumed since the disruption caused by COVID – 19. Some courses are being completed online where this learning pathway is effective for trainees.

## **6 Incident and Injury Reporting, Recording and Investigation**

### Notifiable Events to WorkSafe NZ

There have been no events requiring notification to WorkSafe during this report period.

(The death of a person, a notifiable injury, illness - or a notifiable incident that must be reported to WorkSafe NZ).

### Event Statistics

Events recorded include Accidents, Incidents, Near Misses and Illness.

Total 230 averaging 19 events per month for financial year 2018 - 2019
Total 155 averaging 13 events per month for financial year 2019 - 2020
Total 206 averaging 17 events per month for financial year 2020 - 2021
Total 91 averaging 8 events per month for financial year 2021 - 2022

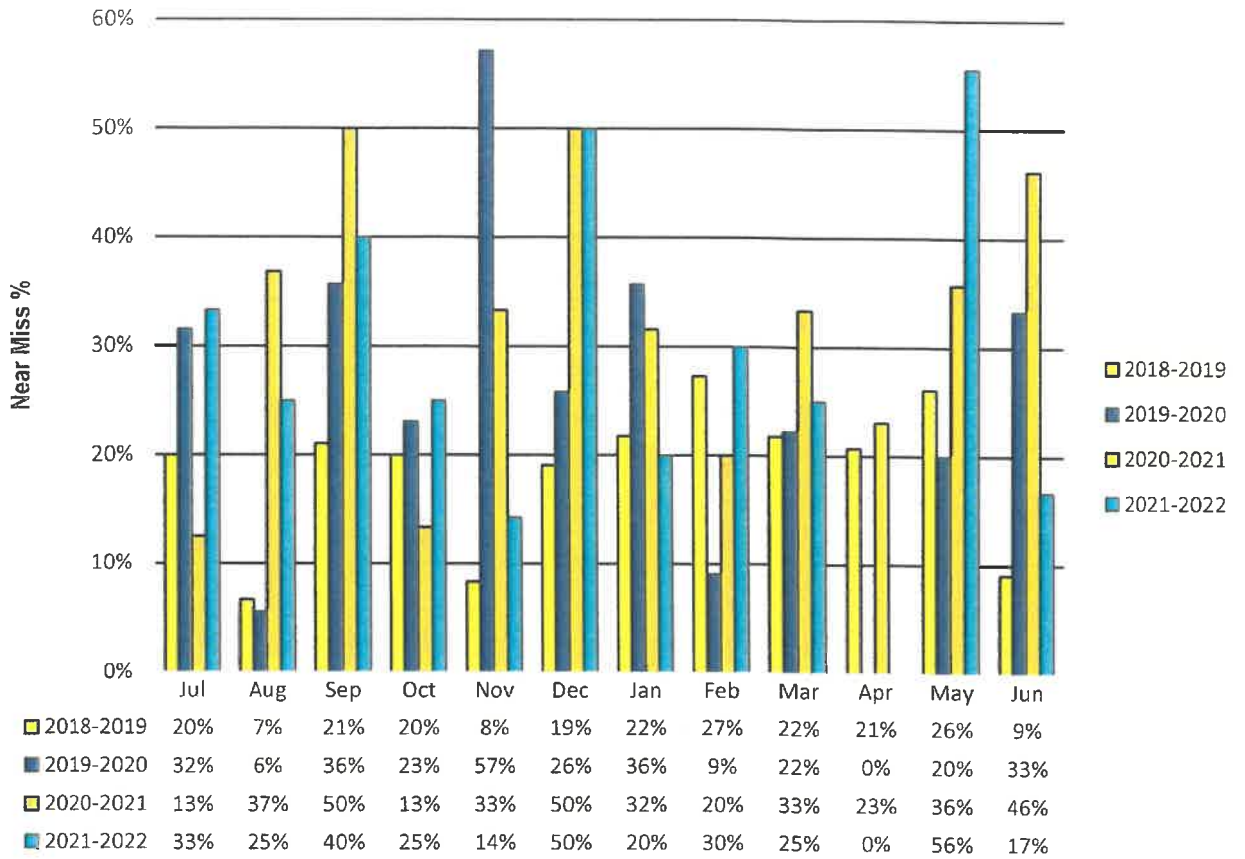
Event Statistics are lower than usual for 2021 - 2022 due to COVID – 19 and the swimming pools being temporarily closed for essential maintenance.

### Near Miss events

The organisation values near miss events being reported understanding the learning potential and opportunity to improve health and safety preventative control measures.

- Near miss events contributed to 18% of total events for financial year 2018-2019
- Near miss events contributed to 25% of total events for financial year 2019- 2020
- Near miss events contributed to 32% of total events for financial year 2020-2021
- Near miss events contributed to 29% of total events for financial year 2021-2022

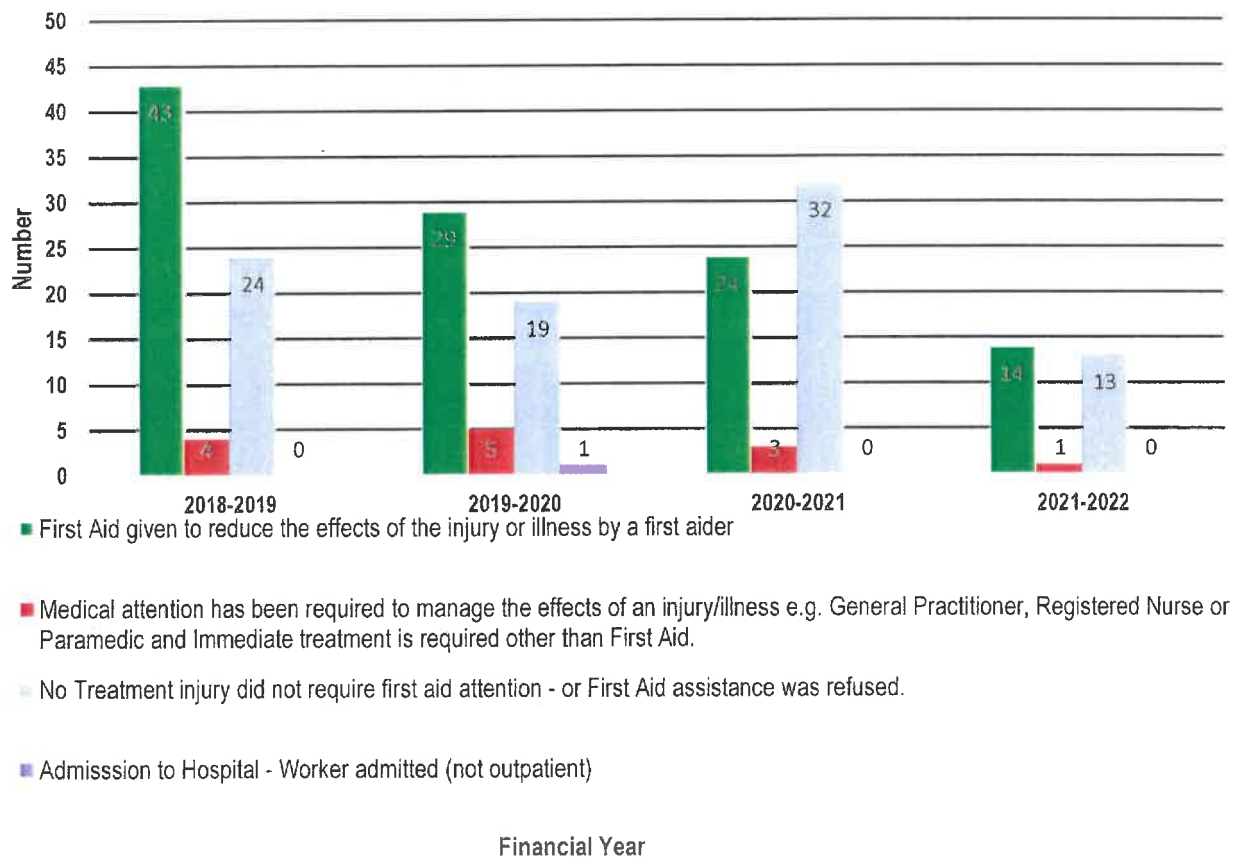
### Near Miss % of Events by Financial Year



The column combination graph above identifies the financial year focusing on the percentage of near misses recorded for each month.

## Accidents

### Injury Treatment Required by Financial Year



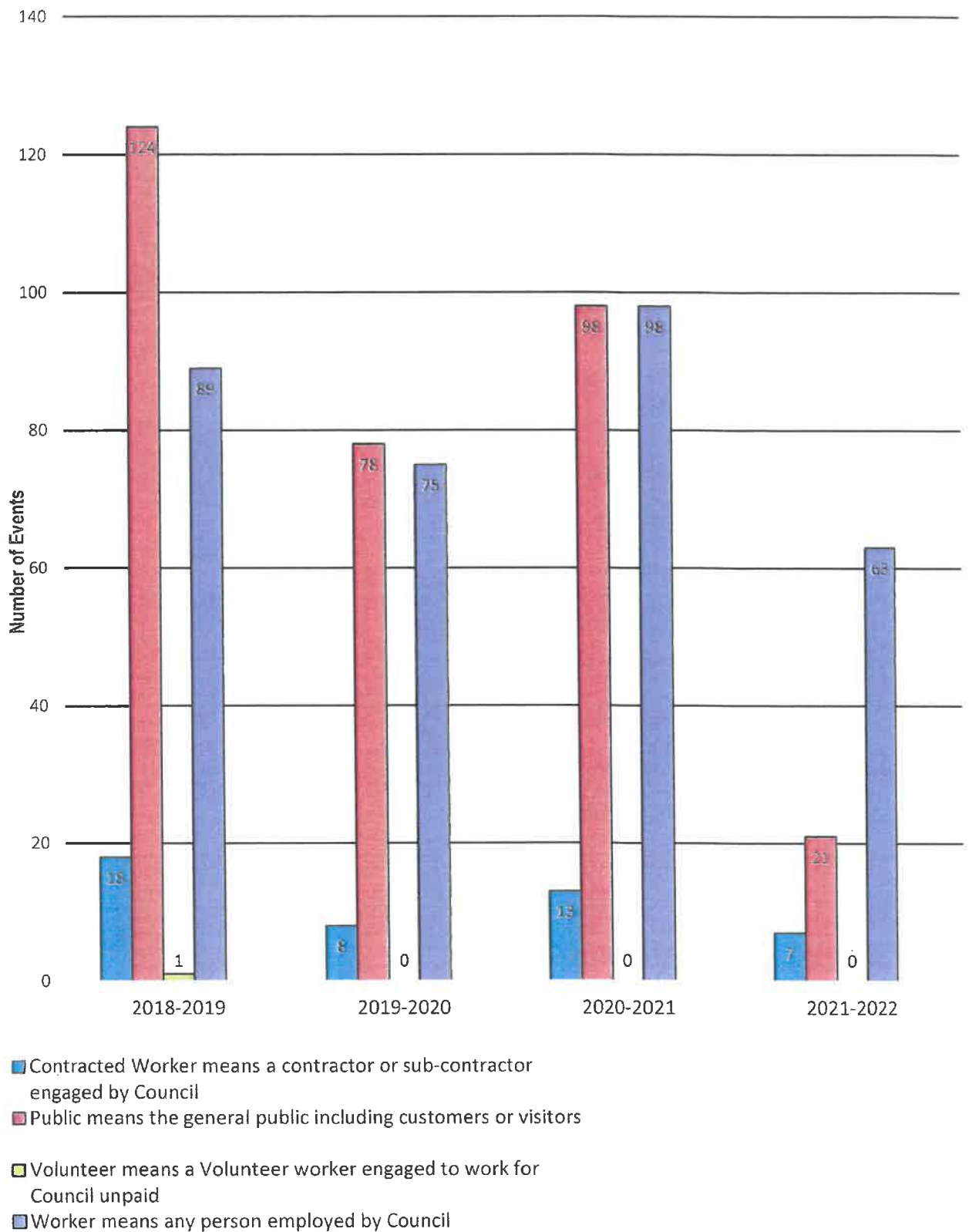
The column combination graph above identifies injury/illness treatment outcomes by financial year for all sites. All sites and all person types are included in the data.

There is a downward trend possibly due to COVID – 19 and the pool closure for essential maintenance.

### Types of Person Involved in Events

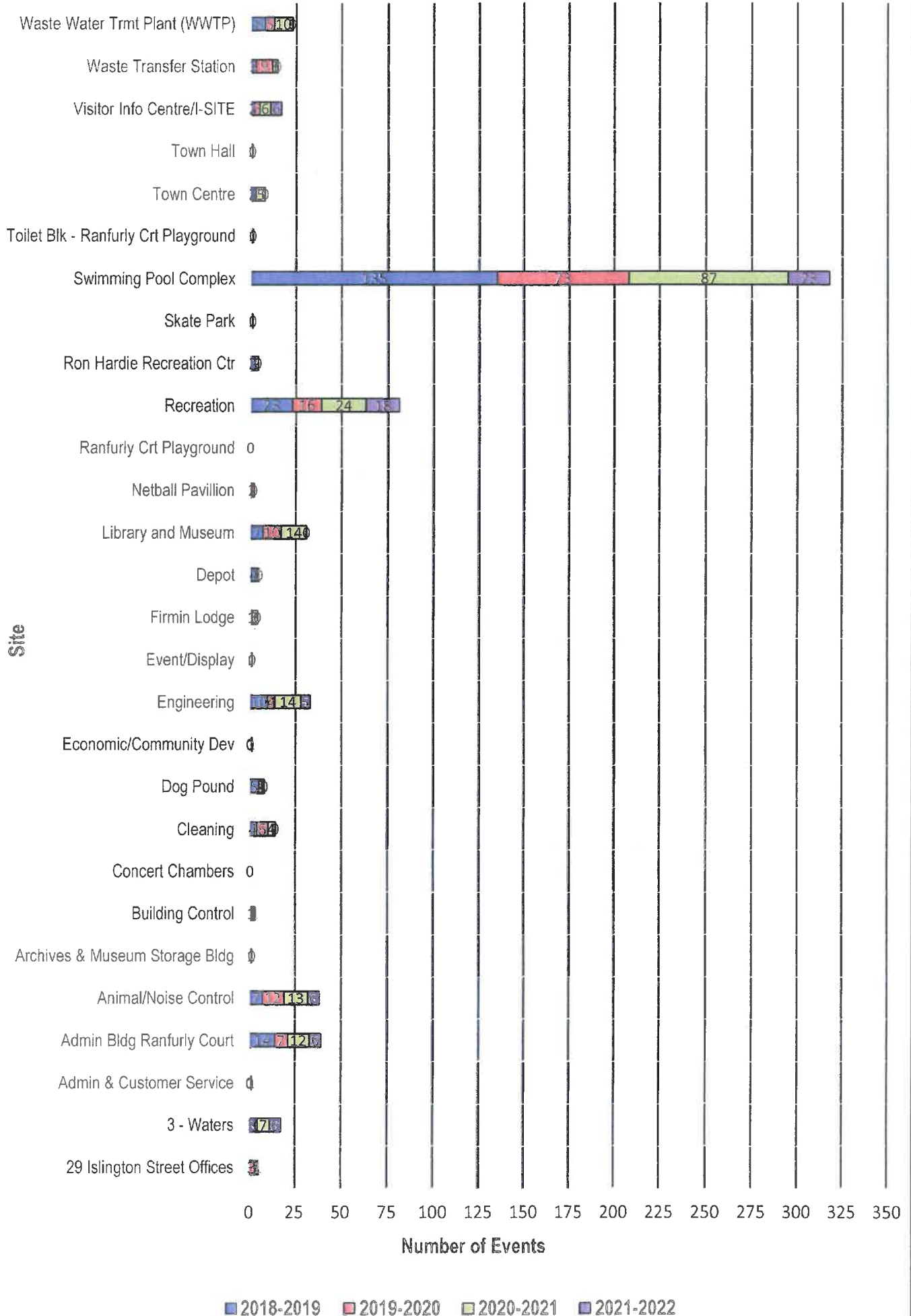
The organisation records the type of person involved in events. Most of the public events occur at the Swimming pool site but this has been closed for several weeks impacting event data results for this financial year.

## Types of Persons Involved in Events by Financial Year



The column combination graph above identifies the type of person involved in all events for the financial year.

### Site Event Records by Financial Year





The stacked bar chart above identifies the sites where an event has been reported and recorded for financial years 2018-2019, 2019-2020, 2020-2021 and 2021-2022.

Event reports from the swimming pool site are lower than previous years due to a temporary closure for essential maintenance and COVID restrictions previously.

## **7 Employee Participation in Health and Safety Management**

The Health and Safety Committee (HSC) continues to meet monthly.

Health and Safety Representative training has now resumed and courses relating to Incident Investigation and Hazard and Risk management have been scheduled.

The HSC has successfully implemented a new Staff Health & Safety Award scheme culminating with a presentation event held at the Maurie Kjar Memorial Swimming Pools on 30 June. Awards were presented by His Worship the Mayor, the Chief Executive and the Group Manager Regulatory and Planning.

COVID – 19 delayed this event which was originally planned to coincide with the International Labour Organisation (ILO) World Day for Safety and Health at Work on 28 April 2022. The event was well received by all.

Health and Safety is an agenda point for departmental business improvement meetings, management meetings and Leadership team meetings.

## **8 Emergency Planning and Readiness**

Certain Council premises are required to have Building Warrant of Fitness Certificates (BWoF) e.g. District Office/Library and Firmin Lodge because they are identified as having specified systems.

Specified Systems require scheduled inspection and maintenance for health and safety reasons annually. These can include fire warning (alarm), sprinkler systems, emergency lighting, riser mains, automatic doors, mechanical ventilation and lifts etc. Compliance checks for specified systems are done by an Independent Qualified Person (IQP) namely Bay Building Company.

A Building not requiring a BWoF has emergency plans, emergency exits and assembly points maintained by Operations and Services.

First Aid equipment, training and provision is maintained.

### Duress Alarms and Emergency Lock Down

All Council counter services have duress alarms and emergency lockdown buttons which are tested regularly and records of testing maintained in VAULT.

## **9 Protection of Employees from On-site Work undertaken by Contractors and Sub-contractors**

### Contractor Monitoring Key Performance Indicator (KPI)

Contractors can be subject to site audits by the HSO and the relevant Kawerau District Council (KDC) contract manager.

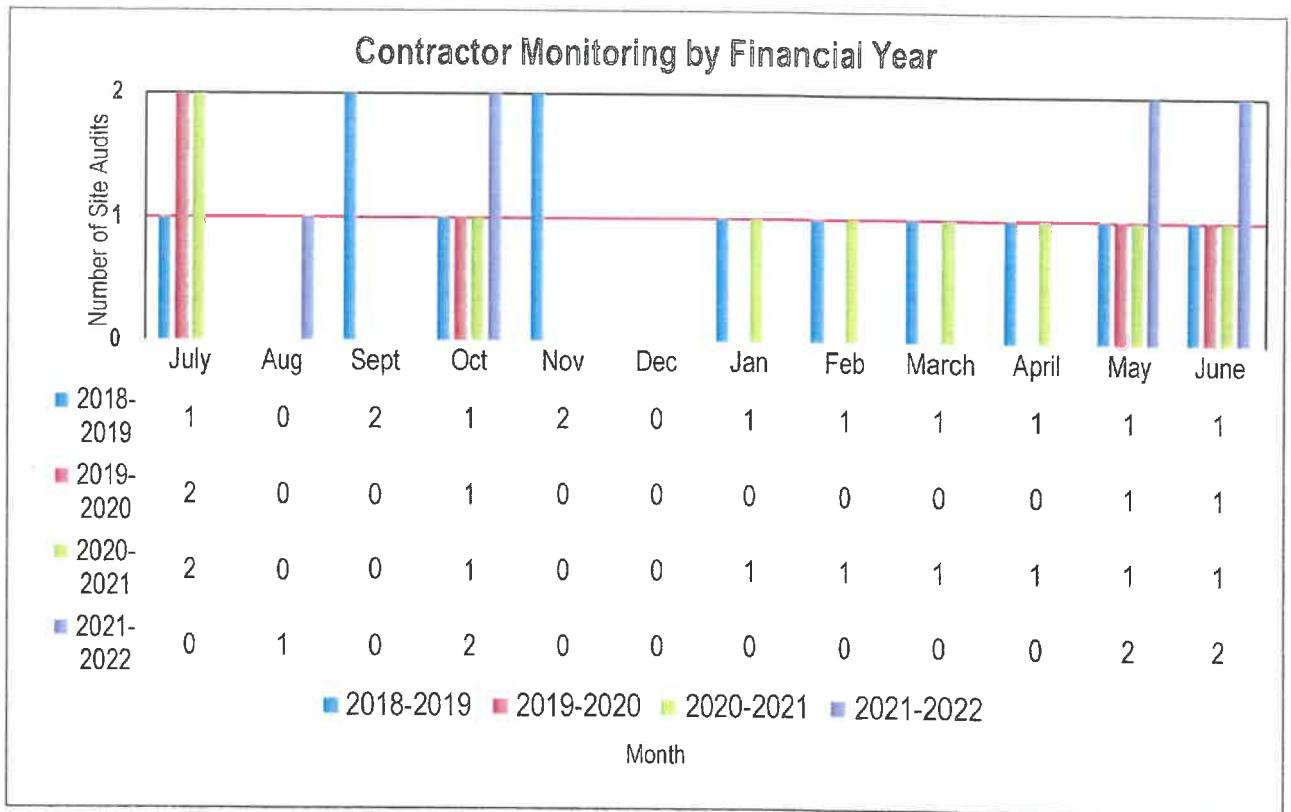
Contractor auditing measurement uses a Key Performance Indicator (KPI) with a target set at one Audit per month – except during holiday periods when contractor activity is low.

Individual or combined factors influence the KPI target being met - like; unplanned or reactive work taking priority, leave, availability of a variety of contractors, suitable projects to audit, pandemic alert level restrictions and weather.

The KPI target was 10. For the 2020/2021 year KDC completed 9 audits. For this financial year 2021/2022 7 audits were achieved. The reason for not achieving the KPI was due to the impact of COVID – 19.

Key Performance Indicator (KPI) Contractor Health and Safety Monthly Monitoring Financial Year 1 July 2020 – 30 June 2021				
Month	Monthly Site Inspections Required	Monthly Site Inspections Completed	Monthly KPI Achieved	Comment
July 2021	1	0	No	-
Aug 2021	1	1	Yes	Poplar Tree removal – Tarawera High School
Sept 2021	1	0	No	-
Oct 2021	1	2	Yes	<ul style="list-style-type: none"> <li>Building Contractors – works stopped - awaiting Building Inspection 21/10/21 audit cancelled</li> <li>Water Pipe Contractors 21/10/21 audit completed</li> <li>Carpark surface Repairs 26/10/21 audit completed</li> </ul>
Nov 2021	1	0	No	COVID-19 work prioritised
Dec 2021	0	-	-	Contractor Activity Low
Jan 2022	0	-	-	Contractor Activity Low
Feb 2022	1	0	No	HSO working from home at COVID - 19 Traffic Light Red Phase 3
March 2022	1	-	No	HSO working from home at COVID - 19 Traffic Light Red Phase 3
April 2022	1	-	No	HSO working from home at COVID - 19 Traffic Light Red returning to office working late April
May 2022	1	2	Yes	Civil Construction – Water Pipe installation audit completed 13/05/22 Arborists – Tree Removal Project audit completed 31/05/22
June 2022	1	2	Yes	Civil Construction – Traffic Management audit completed 21/06/22 Fencing Contractor – Audit completed 22/06/22
<b>Totals</b>	<b>10</b>	<b>7</b>		-
<b>KPI:</b> 1 Monthly Site Inspection			<b>Assigned to:</b> Health & Safety Officer (HSO)	
<b>Review:</b> as a minimum - Annually Next Review Date 31/09/22			<b>Review team:</b> Chief Executive Officer (CEO), Manager Regulatory & Planning (MRP) & HSO.	
<b>Review Objectives:</b> Identify opportunities for improvement ensuring KPI remains Specific, Measurable, Achievable, Realistic and Time bound.			<b>Method of Review:</b> Team Meeting to review objectives identify and implement opportunities for improvement.	

The combination chart below identifies the number of contractor site audits for the financial years 2018-2019, 2019-2020, 2020-2021 and 2021-2022.



**10 Conclusion**

The Occupational Health and Safety Management system is in place and continues to be monitored, developed and improved.

**11 RECOMMENDATION**

That the report 'Occupational Health and Safety Management System Status' be received.

Paul Snook, ProfNZISM. MIIRSM. HASANZ

**Health & Safety Officer**

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**Meeting:** Audit and Risk Committee

**Meeting Date:** 9 August 2022

**Subject:** Treasury Report to 31 July 2022

**File No:** 110551

## 1 **Purpose**

The purpose of this report is to inform members of the funds held by Council as at 31 July 2022 and provide explanations for any significant variances from the previous year.

## 2 **Background**

This report will also go to the Regulatory and Services Committee, and shows the funds currently held and the banks where those funds are invested.

All investments were made in accordance with Council's Investment Policy.

Council's investment policy permits a limit of no more than 50% of total funds that can be invested with a single institution and also no more than \$1.5 million being invested with any one bank.

The exception is Council's principal bank where funds can exceed 50% and/or \$1.5 million.

Council amended its investment policy back in 2021 due to less funds and therefore it being more difficult to spread investments. However, Council still needs to act prudently and ensure that risk is reduced

## 3 **Funds Held**

The following funds were held at 31 July 2022:

	July - 2022	July - 2021
<b>Special Funds</b>		
Depreciation Funds	\$5,321,863	\$5,525,000
Development Feasibility	\$11,000	\$11,000
<b>Total Special Funds</b>	<b>\$5,332,863</b>	<b>\$5,536,000</b>
General Funds	(\$720,792)	\$1,040,000
<b>Total – comprising cash &amp; internal loans</b>	<b>\$4,612,071</b>	<b>\$6,576,000</b>

The figures show that overall Council has \$1.9 million less funds than this time last year which is mostly as a result of:

- Programmed pipe renewal for water and wastewater
- Less revenue (than budgeted) from Central Cove section sales, due to asbestos contamination
- MTFJ and Library funding paid in July 2021 – in advance
- Increased refuse disposal cost during year
- Additional resourcing during COVID – My Vaccine Pass

The projected cash-flow graph shows that Council is likely to continue to have a surplus until the second quarter of the new financial year. Staff will arrange loan funding prior to Council going into deficit.

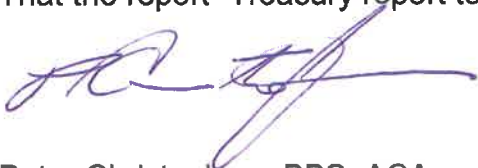
Funds held @ 31 July 2022 were as follows:

Invested in	\$	Interest (Average) %	% External
ANZ – on call	832	0.90%	0.02%
BNZ – current & on-call	1,243,843	0.25%	69.46%
Rabobank (on-call)	1,364,149	2.00%	30.52%
Kiwibank	301,272	2.15%	
<b>Total Funds (Cash)*</b>	<b>2,910,096</b>		<b>100.00%</b>
Internal Loans	1,701,975		
<b>Total Investments</b>	<b>\$4,612,071</b>		
<b>Interest Rates</b>	Average interest rate		1.33%
	Weighted Average interest rate		1.26%

\*These figures include the accrued interest to 31 July 2022

#### 4 **RECOMMENDATION**

That the report "Treasury report to 31 July 2022" be received.

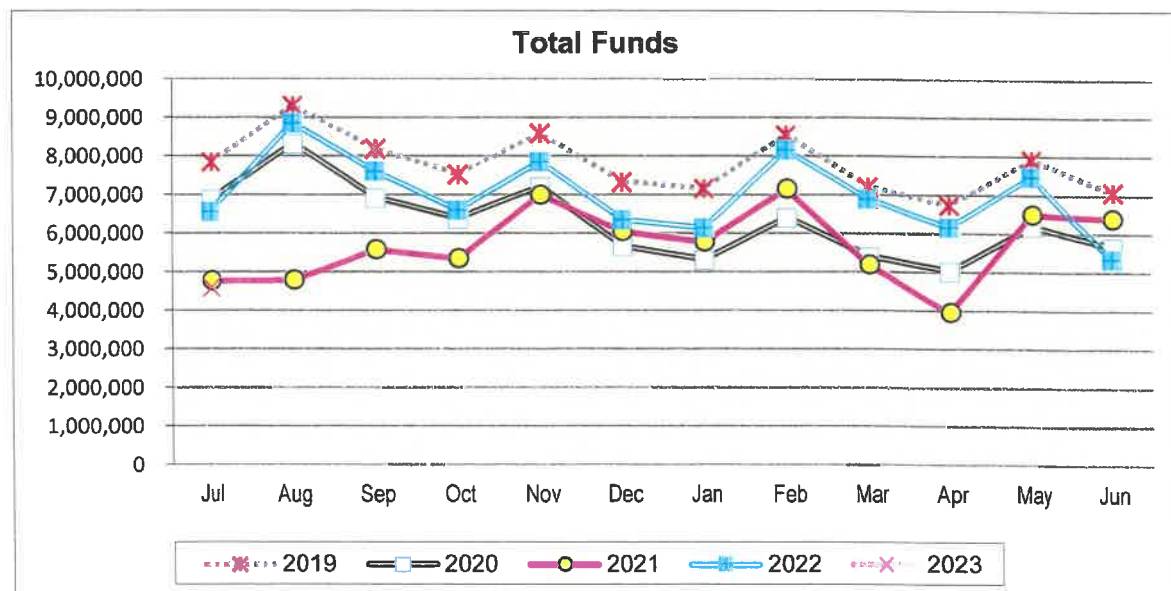
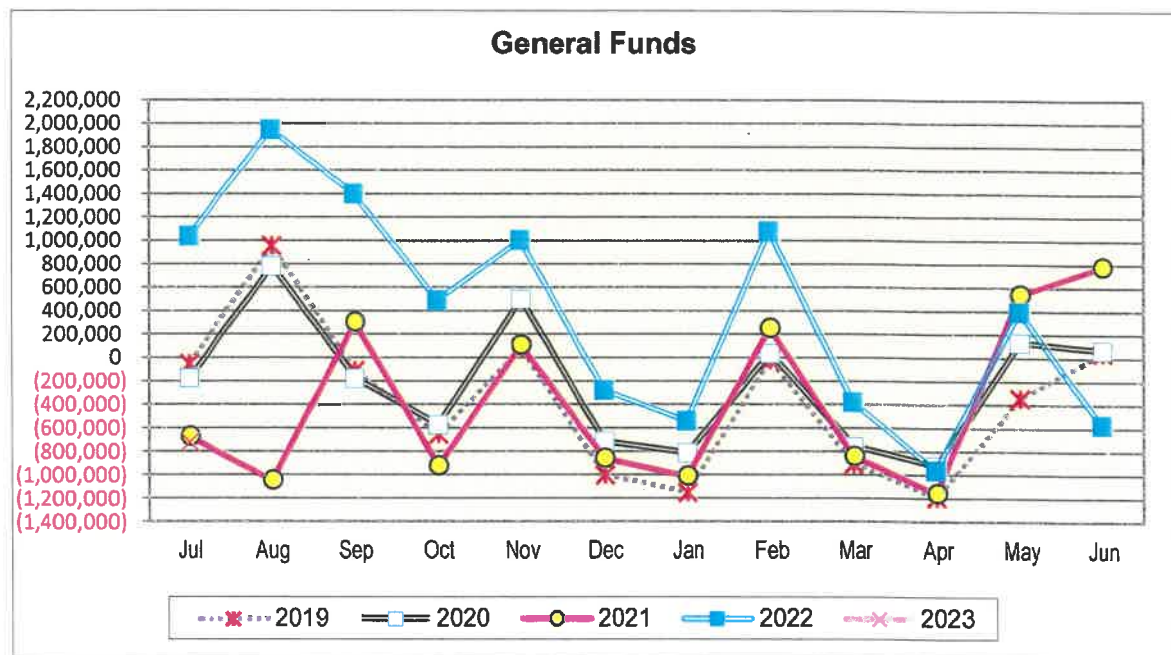
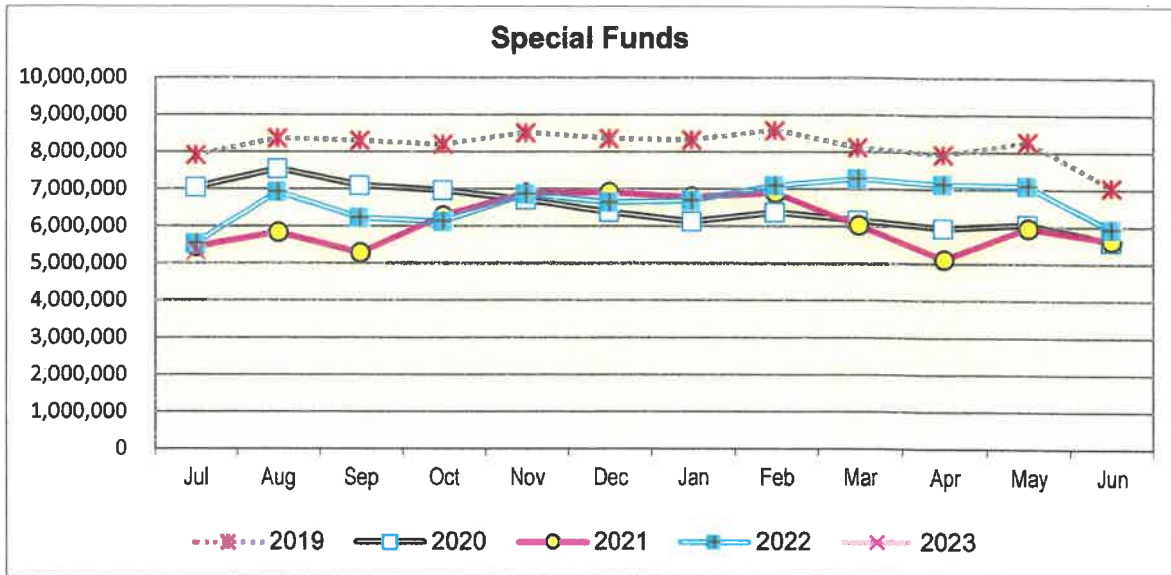


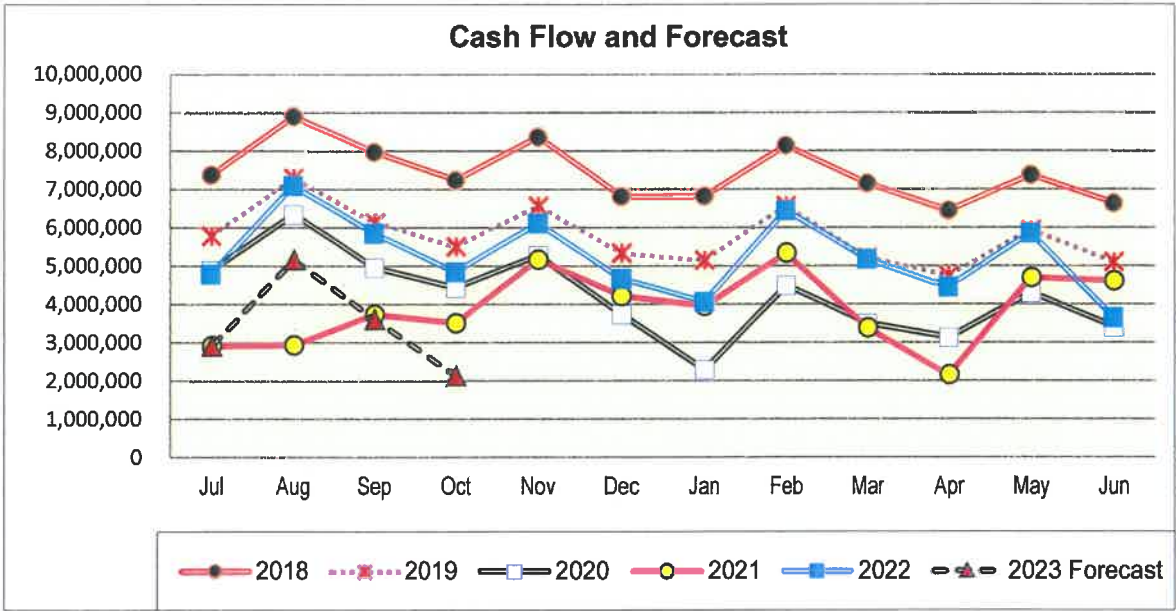
Peter Christophers, BBS, ACA

**Group Manager, Finance & Corporate Services**

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**Appendix**  
**Funds Monitoring Graphs**  
**July 2022**







**Meeting:** Audit and Risk Committee

**Meeting Date:** 9 August 2022

**Subject:** Review of Council's Sensitive Expenditure Policy

**File No.:** 110820

## **1 Purpose**

The purpose of this report is to review and update Council's sensitive expenditure policy as it was last updated in 2020 and following the recommendations of Council's auditors, is now due for review.

## **2 Background**

The sensitive expenditure policy is essentially a guide for staff and elected members when dealing with expenditure that is deemed to be sensitive.

Examples of sensitive expenditure include:

- Travel and accommodation
- Hospitality
- Gifts

Council expenditure is public money and therefore should withstand scrutiny by the public. The Sensitive Expenditure Policy was previously updated to include:

- limits for the cost of meals that Council would reimburse
- guidance for entertainment and when giving gifts is appropriate
- requirement that all sensitive expenditure be approved on a "one-up" basis (that is approved by the supervisor or manager)
- Elected or staff member are permitted to consume food (not alcohol) from the mini-bar where it is not possible or easy to get a meal

The policy was last adopted by Council July 2020.

## **3 Sensitive Expenditure Policy**

The Sensitive Expenditure Policy has been developed to ensure that elected members and staff adhere to the appropriate processes and limits when incurring sensitive expenditure.

The policy specifically includes guidance for:

- Motor vehicles for business travel
- Air travel
- Accommodation and meals
- Telephones and communication
- Entertainment and hospitality

- Gifts
- Donations and Koha
- Authorisation for reimbursement of expenses
- Sale of surplus assets

The policy is appended to this report and includes the following changes as recommended in the OAG good practice guide:

- Claims relating to sensitive expenditure need to be submitted promptly after the expenditure is incurred.
- Claims relating to sensitive expenditure need to be in English or Te Reo Māori (or independently translated before payment).
- If claims for sensitive expenditure required a business case and budget before the expenditure was authorised, an explanation should be provided for any incurred expenditure that is more than the agreed budget.
- Travel policies and procedures should require initial consideration of technology-enabled solutions as opposed to travel in person.
- Policies and procedures should cover rideshare options charged through an app linked to a credit card. If the app is set up to use a personal credit card, the policy should cover processes to distinguish legitimate work expenses from personal expenses.
- Policies and procedures outline that tipping should not in any circumstances be extravagant. Entities should not meet the costs of tipping by staff while they are on entity business in New Zealand, and to pay for tips during international travel only in places where tipping is local practice.
- Any expenditure on farewells or retirements is to be pre-approved at an appropriate level of management, and to be moderate, conservative and in-line with the number of years of service.
- The District Council's well-being policies outline contributions to social clubs must be prudent and reasonable in terms of the benefit obtained by the organisation.
- The District Council's well-being policies limit sponsorship of a staff member to those that provide publicity for the organisation and its objectives.
- The District Council ensures that their policy specifically states that receiving cash gifts is unacceptable in any circumstances.

#### **4 Policy and Plan Considerations**

There are no policies or plans that are inconsistent with this proposal.

## 5 **Legal Considerations**

There is no legal requirement for Council to adopt a sensitive expenditure policy. However, Council's fundamental legal obligation is always to act fairly and reasonably, and in accordance with the law. To ensure that this always occurs when undertaking any sensitive expenditure, it is preferable that a policy is adopted to provide the necessary processes and guidance for staff and elected members to act fairly and reasonably.

## 6 **Significance and Engagement**

There is nothing in the sensitive expenditure policy which would require Council to consult the community.

## 7 **RECOMMENDATIONS**

1. That the report "Review of Council's Sensitive Expenditure Policy" be received.
2. That the Audit and Risk Committee approve the updated Sensitive Expenditure Policy (including any further amendments) for adoption by Council



Peter Christophers BBS, ACA

**Manager Finance and Corporate Services**

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## Appendix

### COUNCIL POLICY

<b>TITLE:</b>	<b>SENSITIVE EXPENDITURE POLICY</b>
<b>MEETING:</b>	<b>9 August 2022</b>
<b>OFFICER RESPONSIBLE</b>	<b>Manager Finance and Corporate Services</b>
<b>FILE REFERENCE:</b>	<b>112010</b>
<b>REVIEW:</b>	<b>30 June 2025</b>

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#### **1. BACKGROUND**

The money spent by Kawerau District Council ("Council") is public money and must meet standards of probity that will withstand scrutiny by the public and/or Parliament.

Sensitive expenditure is any expenditure incurred by Council that provides, has the potential to provide or may be perceived as providing some private benefit to an individual staff member in addition to its business purpose. It also includes expenditure which could be considered to be unusual for Council's purpose and function.

Examples of expenditure which may be regarded as sensitive include, travel, accommodation and hospitality, particularly, but not exclusively, on overseas trips.

#### **2. PURPOSE**

This policy has been developed in order to ensure that Council adheres to appropriate processes for the authorisation and control of sensitive expenditure.

Excluded from this policy are:

1. Elected Members' remuneration and expenses. Remuneration is governed by the Local Government Elected Members Determinations issued by the Remuneration Authority and reimbursement of expenses by Council's policy as approved by the Remuneration Authority.
2. Items specifically provided for in Employment Agreements.
3. Severance payments.

#### **3. PRINCIPLES**

All money spent by Council is public money and is not the property of elected Members or members of staff to do with as they wish. Consequently, expenditure should be subject to high standards of probity and financial prudence and be able to withstand scrutiny by the public or Parliament.

Under those standards, decisions made must apply the principles that the expenditure:

- Has a **justifiable business purpose**
- Maintains **impartiality**
- Is made with **integrity**
- Is **moderate and conservative**, taking into account the circumstances in which it is incurred
- Is made **transparently**
- Is **appropriate** in every respect

In deciding whether sensitive expenditure is to be authorised, members of staff must apply all the above principles. None should be regarded as being more important than, or applied in isolation from, the others.

In all cases, claims for reimbursement of expenditure must be made on Council's approved claim form, detailing people attending, the trip's destination and business purpose. All claims must be backed up by GST receipts where appropriate.

Claims relating to sensitive expenditure need to be submitted promptly after the expenditure is incurred.

Claims relating to sensitive expenditure need to be in English or Te Reo Māori (or independently translated before payment)

If claims for sensitive expenditure required a business case and budget before the expenditure was authorised, an explanation should be provided for any incurred expenditure that is more than the agreed budget.

Policies on specific types of expenditure which may be considered sensitive follow.

#### 4. **TRAVEL AND ACCOMMODATION**

##### 4.1 **General**

1. Expenses relating to attendance at courses, conferences and seminars relevant to an employee's duties will be reimbursed on an actual and reasonable basis.
2. Prior attending any course, seminar or training there needs an initial consideration of technology-enabled solutions as opposed to travel in person. The physical attendance at a course/seminar by a staff needs the prior approval of their manager.
3. All costs associated with the training must also be approved by the staff member's supervisor and their needs proof that the expenses are legitimate work expenses.

This will include meals, accommodation, travel, transport and any other associated costs.

This is for costs charged directly to Council, and those reimbursed to the staff member.

The supervisor must ensure that these costs comply with this policy and is within their delegation to approve.

4. Council will not reimburse any bar (including "mini-bar") expenses that are incurred by the staff member. These expenses should be paid for directly but if they are charged back to Council they are to be paid by the staff member. However, if a staff or elected member has incurred mini-bar expenses for food as it was not easy to have a meal, then the employee's supervisor may approve the mini-bar expenses.

5. All travel and accommodation must be approved in advance.
6. Council will not pay round sum allowances to cover travel and accommodation.
7. Costs should be invoiced direct to Council whenever possible, otherwise they will be reimbursed to the individual (staff or elected member).
8. All claims for reimbursement must be submitted on Council's standard expenses claim form and include details of the business reason for the expense being incurred.
9. Relevant GST receipts for all expenditure must be attached to the form which will be approved and authorised by the relevant Manager.
10. As a rule Council will not reimburse tips given by staff. However, if staff or elected members are required to travel overseas where it is customary to give tips, then the cost of tips will be reimbursed but must be reasonable and not extravagant.
11. Expenses will be measured against what is reasonable in the opinion of the employee's Manager. In the event of any dispute, the final decision will lie with the Chief Executive Officer ("CEO")

#### **4.2 Motor Vehicles**

1. When one is available, staff should use a Council vehicle for business travel.
2. If use of a rental car is authorised, it must be booked through the Chief Executive Officer's Secretary ("CEOS").
3. The car hired will be the most economical type and size appropriate for the people carried and distance travelled.
4. The car will be hired only for the duration of the business trip and may not be used for private purposes.
5. In the event that an employee is authorised to use his/her own car, the actual distance travelled on Council business will be reimbursed at the approved IRD rate. **N.B.** If such a business journey commences from and/or finishes at the employee's home, IRD rules require that the normal distance travelled between home and work be deducted from the total distance travelled.
6. Any parking fines or other traffic fines incurred during business travel will be the responsibility of the driver and will not be reimbursed by Council. The only exception will be if travel is undertaken in a Council vehicle and the fine results from an aspect of the condition of the vehicle is outside the driver's control.
7. The cost of taxis or shuttles will be reimbursed for journeys between an airport and the business destination. If accommodation is not within walking distance of a business destination, taxis may be used only if public transport is unavailable or impractical.

### **4.3 Air Travel**

1. All air travel must be approved in writing and be booked through the CEOS at the lowest fare available at the time of booking.
2. No subscriptions will be paid to airline travel clubs and no airpoints or similar benefits may be claimed on business travel.

Overseas air travel will be in economy class for journeys.

### **4.4 Accommodation and Meals**

1. Accommodation must be booked through the CEOS and will, whenever possible, be arranged at hotels offering special Government rates with chargeback facilities.
2. If a staff member stays with a friend or relative Council will not pay an allowance for accommodation. However, it will reimburse any reasonable additional costs that were incurred to stay with the friend or relative (such as taxi or bus fare) as long as these costs don't exceed the amount that would have been incurred for hotel accommodation.
3. Meals will be reimbursed on an actual and reasonable basis, unless they are provided as part of the accommodation or other package.

The following are expenditure limits for meals that will be paid for by Council:

- Breakfast \$25.00
- Lunch \$30.00
- Dinner \$45.00

If the conference or meeting necessitates expenditure for meals that exceed these limits, then approval can be given by the Chief Executive Officer.

Only expenses incurred by employees for business purposes will be met or reimbursed by Council. Should an employee wish to take annual leave in conjunction with any business trip or have a spouse/partner accompany them to any function this must be authorised in advance. If authorisation is given, all costs in excess of the minimum required for the employee's business purpose will be considered to be private costs and therefore the responsibility of the individual employee. Such costs include, but are not limited to, additional car hire or air fares, spouse/partner's travel, accommodation and meals.

## **5. TELEPHONES & COMMUNICATIONS**

1. Staff will be supplied with a cellphone to be billed to Council's account where it is required for their job.
2. Private calls, including to home, may be made using a Council cellphone. Any charges that exceed the limit of Council's policy and/or are not reasonable will be charged to the individual.
3. Should a member of staff be delayed while returning from a business trip, calls made in order to advise the employee's family of the delay and expected time of return will not be considered private calls.

4. Private use of Council telephones, internet or e-mail facilities during normal working hours, for example to deal with a family emergency, will be permitted, but must be kept to a minimum. Staff found to be abusing this privilege will be subject to disciplinary action.

Fuller guidance on what is considered appropriate and inappropriate usage can be found in the separate E-mail and Internet Management Policies.

## **6. ENTERTAINMENT AND HOSPITALITY**

As Council's functions are not commercial in their nature, there are likely to be limited circumstances in which entertainment and hospitality expenses are incurred. Reciprocal hospitality when attending courses, conferences or seminars and staff entertainment, for example at Christmas or other special event, are occasions when such expenditure may occur. Also Council may need to entertain a third party in order to facilitate investment and/or development for the district.

The following guidelines are to be applied when incurring such expenditure.

1. Staff meals in celebration of a special event will be considered reasonable. It is expected that such events are unlikely to occur more frequently than one or two times a year for any member of staff/department.
2. An employee should obtain guidance on permissible levels of expenditure from the relevant Manager in advance.
3. Where a Manager or the Council entertains a prospective investor/developer, approval will be obtained from the Chief Executive Office and/or Mayor. The staff involved in the entertainment will need to ensure that costs are reasonable.

Although not involving expenditure by Council, when an employee is offered entertainment or hospitality by third parties, such as suppliers or contractors, the following matters have to be considered:

1. Acceptance of entertainment or hospitality offered by a third party must be approved in advance by the CEO.
2. Entertainment or hospitality offered during a tender process by any third party who has submitted, or is likely to submit, a tender should be politely declined. The terms of this policy should be explained in order not to give offence by declining.
3. Any doubt on the appropriate response to an offer of entertainment or hospitality must be discussed with the employee's Manager.

## **7. GIFTS**

As a general rule, Council does not offer gifts to third parties. However, Council may feel that a gift is necessary to facilitate an important relationship with a third party which will be to the future benefit of the district and ratepayers. In these circumstances the gift will need to be approved by the Mayor or Chief Executive Officer. The value of the gift should not exceed \$500.00.

The following guidelines refer to the offer of gifts from third parties to Council employees.



1. One-off gifts, valued at \$100 or less, may be retained by an employee.
2. A gift whose value exceeds the \$100 limit may be accepted, but only on behalf of the organisation and must be declared to the employee's Manager and the CEO, who will decide on the most appropriate course of action. Depending on the nature of the gift, it may be retained for use by Council.
3. No gifts should be accepted during a tender process from any supplier/contractor who has submitted, or is likely to submit, a tender. So that the reasons for declining the offer of a gift are clearly understood, the terms of this policy should be explained in order to avoid giving any offence.
4. The receiving cash gifts is not acceptable in any circumstances and must be declined if offered.

## **8. DONATIONS AND KOHA**

A donation, including the gifting of koha, is a payment made voluntarily without the expectation of receiving anything in return.

Donations and koha must be:

1. Lawful in all respects.
2. For purposes consistent with Council's business.
3. Of a size that is appropriate in the circumstances.
4. Made by normal commercial means, not in cash.
5. Non-political.

Approvals of donations and koha are restricted to the CEO and Managers.

## **9. REIMBURSEMENT OF EXPENSES INCURRED BY THE CHIEF EXECUTIVE, MAYOR AND ELECTED MEMBERS**

Approval for reimbursement of expenses that are incurred while on Council business should be made by the individual that is "one-up" in the organisation.

Therefore reimbursement of expenses that are incurred by Chief Executive will be approved by the Mayor. Expenses incurred by councillors will also be approved by the Mayor.

Reimbursement of expenses incurred by the Mayor will need to be approved by two Councillors.

## **10. FAREWELLS, FUNCTIONS AND RETIREMENTS**

Any expenditure on farewells, retirements and significant functions such as Christmas that are paid for by Council are to be pre-approved by the Chief Executive, and to be moderate, conservative and in-line with the number of years of service (for farewells/retirements).

Council may also contribute towards a farewell gift, the value of which will be dependent on the numbers of years of service. The amount must also be pre-approved by the Chief Executive.

## **11. SPONSORSHIP OF INDIVIDUAL STAFF AND STAFF ORGANISATIONS**

Council will sponsor a staff member, if they are competing at a national or international level and there is a perceived benefit to the organisation. The sponsorship must be conservative, reasonable and approved by the Chief Executive.

Council will generally not sponsor staff organisations (such as staff sports teams) unless they are involved in a national competition and there is a perceived benefit to the organisation. The sponsorship must be conservative, reasonable and approved by the Chief Executive.

## **12. SALE OF SURPLUS ASSETS**

From time to time Council will dispose of assets, usually when they have reached the end of their useful lives or have become surplus to its requirements. When disposing of assets, the procedures to be followed must be transparent, fair and designed to maximise the return to Council.

Whenever appropriate, assets may be traded in against their replacements. Otherwise, the following should be noted:

1. Assets to be disposed of should be valued in advance and the value declared for guidance.
2. Smaller value assets for sale, for example computers, will be advertised within the District on two occasions per year, when required.
3. Larger value assets, for example vehicles, may be auctioned off to the public by using an auction house or a site such as "Trade Me" if this is reasonably expected to yield a better price.

**Meeting:** Audit and Risk Committee  
**Meeting Date:** 9 August 2022  
**Subject:** Audit Management Report for year ended 30 June 2021  
**File No:** 201000

**1 Purpose**

The purpose of this report is to update the committee with the issues raised in the audit management report for the year ended 30 June 2021 and management's responses to the issues identified.

**2 Background**

The Local Government Act 2002 requires that Council produces each year an annual report and that the annual report is audited.

As part of the audit process, an audit management report is prepared by Council's auditors, which identifies issues that Council needs to address to improve its internal controls and ensure it is meeting the legal obligations.

Staff will be reporting to the committee on the progress towards addressing the issues identified.

**3 Issues raised in the Audit Management Report for 2020/21**

Attached is the audit management report for the year ended 30 June 2021, as well as management's responses to the issues raised.

Council's audit director Jo Smail will zoom into the meeting to clarify any of the issues raised.

**4 RECOMMENDATION**

That the report "Audit management report for the year ended 30 June 2021" be received.



Peter Christophers, BBS, ACA  
**Group Manager, Finance & Corporate Services**

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

**Kawerau District Council**

For the year ended 30 June 2021

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## Key messages

We have completed the audit of Kawerau District Council (the District Council) for the year ended 30 June 2021. This report sets out our findings from the audit and draws attention to areas where the District Council is doing well and where we have made recommendations for improvement.

### Audit opinion

We issued a non-standard audit report on 28 June 2022. This means that we were satisfied that the financial statements and statement of service performance present fairly Kawerau District Council's (the District Council's) activity for the year and its financial position at the end of the year.

Without modifying our audit opinion, we included an emphasis of matter paragraph to draw attention to the disclosures in the financial statements related to the three waters reform. These disclosures describe the Government's post balance date announcement that it will introduce legislation to establish four publicly owned water services entities to take over responsibilities for service delivery and infrastructure from local authorities from 1 July 2024.

We also included a paragraph in our audit report to draw attention to the fact that the audit was completed late due to auditor delays.

### Matters identified during the audit

#### Control environment

We performed a high-level review of the District Council's control environment. Overall, we are satisfied the control environment is effective for the purposes of undertaking an efficient and effective audit.

#### Porritt Glade Lifestyle Village

The District Council completed the retirement village development scheme in June 2020, where residential sections were available for sale. We reviewed the District Council's accounting treatment of these transactions (revenue and inventory) and are satisfied these have been appropriately disclosed in the financial statements.

As the District Council is selling retirement homes, they are required under the Retirement Villages Act 2003 to establish a separate entity that will be responsible for operating/selling the retirement homes. As the Auditor-General is the auditor of the District Council we are required to do the audit of the Village as part of the annual audit of the District Council. We will work with management on the timing of when we will complete the Village's audit of the financial statements.

## **Asset valuations**

An area of audit focus was the valuations of the land assets. We reviewed the valuation to confirm that it was soundly based and had been correctly accounted for. We are satisfied that the valuation was correctly recorded in the District Council's financial statements. However, in light of several issues with revaluations identified across the sector in recent years, we have raised some recommendations for management and the Council to consider. These are particularly relevant considering current inflationary pressures which may increase the risk of errors in revaluations and fair value assessments.

## **Three waters reform programme and funding**

The District Council received \$604,000 from the Crown for funding the three waters reform. We reviewed the accounting treatment of the funding to ensure compliance with the appropriate accounting standards. We are satisfied the funding has been correctly recorded in the District Council's financial statements and complies with the appropriate accounting standards.

We also followed up on the status of issues outstanding from previous audits. These matters are discussed further in Appendix 1.

## **Thank you**

We would like to thank the Council, management and staff for their assistance during the audit. We appreciate the co-operation we received, and the way management worked with us during what was a challenging period for everyone.

J R Smaill Appointed  
Auditor 13 July 2022  
- draft

# 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 your business. We use the following priority ratings for our recommended improvements.

Priority	Explanation
<b>Urgent</b>	<b>Needs to be addressed <i>urgently</i></b> These recommendations relate to a significant deficiency that exposes the District Council to significant risk or for any other reason need to be addressed without delay.
<b>Necessary</b>	<b>Address at the earliest reasonable opportunity, <i>generally within six months</i></b> 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.
<b>Beneficial</b>	<b>Address, <i>generally within six to 12 months</i></b> These recommendations relate to areas where the District 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	Reference	Priority
<p>Management should consider factors beyond national cost indices when completing fair value assessments. For example, information from recent construction contracts and construction estimates should be used to understand whether there could be a significant change in the base unit rates used in the previous valuation.</p> <p>In a high inflation environment, it is also important these fair value assessments are carried out early and regularly, to ensure sufficient time for full revaluations to be carried out if material valuation movements are identified.</p> <p>We also recommend that the District Council uses an external consultant to perform the fair value assessments to ensure the assessment is based on current information and is robust.</p>	3.1.1	<b>Necessary</b>



Recommendation	Reference	Priority
We recommend the next revision of the procurement policy include a comparison with the Government Procurement Rules, to ensure all good practice elements are reflected in the policy.	3.5	Necessary
We recommend management update sensitive expenditure policies to include additional matters included in the Office of the Auditor-General's (OAG's) updated sensitive expenditure guidance, where relevant to the District Council.	5	Necessary

## 1.2 Status of previous recommendations

Set out below is a summary of the action taken against previous recommendations. Appendix 2 sets out the status of previous recommendations in detail.

Priority	Priority			
	Urgent	Necessary	Beneficial	Total
Open	-	6	-	6
Implemented or closed	-	4	-	4
<b>Total</b>	<b>0</b>	<b>10</b>	<b>0</b>	<b>10</b>

## 2 Our audit report

### 2.1 We issued a non-standard audit report

We issued an unmodified non-standard audit report on 28 June 2022. This means we were satisfied that the financial statements and statement of service performance present fairly the District Council's activity for the year, and its financial position at the end of the year.

Without modifying our audit opinion, we included an emphasis of matter paragraph to draw attention to the disclosures in the financial statements and statement of service performance that describe the overall impact of the three waters reform on the District Council.

We also included a paragraph in our audit report to draw attention to the fact that the audit was completed late due to auditor delays.

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

#### 2.1.1 Impact of three waters reform

##### Accounting treatment of central government funding received

The three-waters reform programme continues to be one of the most significant policy programmes affecting the District Council. In September 2020, the District Council signed a non-binding Memorandum of Understanding (MoU) with the Crown for the three waters reform programme. In 2020/21, the District Council received \$604,000 for their share of the \$761 million Crown stimulus funding. The District Council is expected to receive another \$188,000 funding from the Bay of Plenty Regional funding allocation of \$42.2 million. This funding is to carry out an approved expenditure programme of capital and operational projects to be completed over a 12-month period.

We reviewed the District Council's accounting treatment of the funding and are satisfied that the Council is complying with the requirements of PBE IPSAS 23 *Revenue from Non-Exchange transactions*.

##### Impact of post balance date announcements

On 27 October 2021, the Local Government Minister announced that Central Government will proceed with the three waters service delivery reforms using a legislated "all in" approach.

The three waters reform involves the creation of four statutory water services entities to be responsible for the service delivery and infrastructure from local authorities from 1 July 2024.

There are still several uncertainties associated with the new three waters delivery model including the mechanism for how assets will be transferred to the newly established entities, and the control and governance of these entities. Notwithstanding the current uncertainty, the announcement, once legislated, will mean the District Council is no longer responsible for the delivery and infrastructure of three water services from 1 July 2024.

For the financial statements of 30 June 2021, the District Council continues to recognise its three waters assets. There has been no adjustment in the 2020/21 financial statements to reflect the expected future transfer of assets to the new water services entity. It is expected Central Government will develop details around the mechanism for the transfer of the water services assets and this will be completed prior to 1 July 2024.

As further details are established this may require adjustments to the District Council's three water assets either in respect of disclosure or measurement. The District Council has included disclosure in the annual report about the impact of the three waters reform. We reviewed the disclosures included in the annual report and are satisfied the disclosures adequately describe the impact the three waters reform may have on the District Council.


## **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 required correcting.

## **2.3 Corrected misstatements**

We also identified misstatements that were corrected by management. A list of these misstatements is available on request.

## **2.4 Quality and timeliness of information provided for audit**

Management is required to provide information for audit. During 2021 Audit New Zealand implemented  AuditDashboard, a new client portal. AuditDashboard is an online tool that allows for easier collaboration and file sharing between our teams and for easy tracking of audit document requests. This enabled for a smoother file and information transfer between management and the audit team and also used as a way of monitoring progress during the audit.

The audit process did not go as smoothly as anticipated. The impact of Covid-19 created additional challenges to both management and us in completing the audit this year. In particular, the accounting treatment of the Porritt Glade Lifestyle Village and the quality of information provided. We will be seeking a fee recovery for the additional audit effort required to complete the audit.

An effective and efficient annual audit process relies on close monitoring of delivery. In case of delays, some contingency could be built into the process to allow for the management of these.

As we strive for improvement in the annual report and audit process, we will work with management to ensure there is a common understanding of expectations before next year's audit.

## 3 Matters raised in the Audit Plan

In our Audit Plan of 30 March 2022, we identified the following matters as the main audit risks and issues:



### 3.1 Valuation of assets

#### 3.1.1 Fair value assessment

The District Council's infrastructure assets, land and buildings were last revalued as at 30 June 2019. Management prepared a fair value assessment to consider the unrecognised valuations movements to 30 June 2021.

Our review of the assumptions used and the resulting calculation did not indicate a material difference between the current carrying value and approximate fair value at that date for infrastructure assets and buildings.

For land assets, the District Council's fair value assessment indicated that land values had increased significantly. We completed our own assessment that indicated land value had changed significantly resulting in a material accumulation of movements in assets since they were last valued. As a result, management engaged Quotable Value Limited to perform a valuation of their land assets as at 30 June 2021.

To gain assurance over the valuation of land assets we:

- assessed the external valuer's expertise and objectivity, and obtained representations from the valuers that the valuations were conducted in accordance with accepted professional valuation standards;
- reviewed the valuation and peer review reports and made enquiries of the valuers to obtain an understanding of the valuation methodologies used;
- assessed whether the valuation movements were reasonable and consistent with our expectations; and
- assessed the reliability of source data and the reasonableness of assumptions used. This included reviewing the basis of unit rates against recent contract information to ensure these were soundly based on current costs.

Our review found that the valuation adopted by the District Council was supportable and valuation movements were consistent with our expectations.

The District Council's fair value assessments have historically been based on indices alone, and do not consider any other factors that would indicate a significant movement between the carrying amount and the fair value. This has been sufficient in recent years when local and national cost inflation was low. However, with construction costs rising at a much

higher rate than seen in previous years, there is an increasing risk that fair value movements on revalued assets will exceed materiality at balance date. Therefore, it is important that fair value assessments are robust and based on good information specific to the District Council.

### **Recommendation**

Going forward, we recommend management considers factors beyond national cost indices when completing fair value assessments. For example, information from recent construction contracts and construction estimates should be used to understand whether there could be a significant change in the base unit rates used in the previous valuation.

In a high inflation environment, it is also important these fair value assessments are carried out early and regularly, to ensure sufficient time for full revaluations to be carried out if material valuation movements are identified.

We also recommend that the District Council uses an external consultant to perform the fair value assessments to ensure the assessment is based on current information and is robust.

### **Management comment**

*Staff will use all the available information when assessing the fair value of assets. The use of construction contract costs is not always available as it depends on the how recently the relevant work has been carried out and the cost of contract work for neighboring councils is not always comparable. Staff have contracted valuers to undertake the re-valuation of Council's assets for the year to 30 June 2022*

### **3.1.2 Impairment**

At each reporting date management must assess whether there is any indication that assets may be impaired. If management identifies any indication of impairment, then they must estimate the recoverable service amount of the asset.

We reviewed management's impairment assessment to determine if there is any indication that assets were impaired. Management's assessment indicated there was no impairment for the year.

We evaluated the reasonableness of management's assumptions in the assessment and are satisfied that there is no indication of unrecognised impairment that may be material to the financial statements.

### **3.2 Housing development scheme**

The District Council's housing development scheme is both unique and complex. The revenue from pensioner and associated assets (houses) will require specific consideration as to the correct accounting treatment.

The District Council completed the retirement village development scheme in June 2020, where residential sections were available for sale. We reviewed the District Council's accounting treatment of these transactions (revenue and inventory) and are satisfied these have been appropriately disclosed in the financial statements.

The District Council's accounting policy also states that residential developments should be valued at the lower of cost and net realisable value. We reviewed the District Council's accounting treatment of these assets and are satisfied that inventory has been correctly recognised at the lower of cost and net realisable value.

As the District Council is selling retirement homes, they are required under the Retirement Villages Act 2003 to establish a separate entity that will be responsible for operating/selling the retirement homes.

We held discussions with management to determine if the Village was a council controlled organisation (CCO) as defined in the Local Government Act 2002 (the Act). The District Council obtained legal advice that confirmed that the Village is not a CCO as the asset is owned and operated by Council. We also sought advice from the OAG to determine if the Village was a CCO.

It was determined that the Village is not a CCO as it did not meet the definition per section 6 of the Act. Section 6 of the Act states that the meaning of a CCO is that an entity means any partnership, trust, arrangement for the sharing of profits, union of interest, co-operation, joint venture, or other similar arrangement but does not include a company or a committee or joint committee of a local authority. The Office of the Auditor-General (OAG) also agreed with Council's legal advice that the Village is an asset owned and operated by the Council.

While the Village is not a CCO the Auditor-General as the auditor of the District Council is required to do the audit of the Village as part of the annual audit of the District Council. We will work with management on the timing of when we will complete the Village's audit of the financial statements.

### **3.3 Capital projects including work in progress**

The District Council continues to have an ongoing capital programme. Accounting for capital projects, whether completed during the year or in progress at balance date, requires assumptions and judgements to be made that can have a significant impact on the financial statements.

There is a risk that the financial balances for work in progress (WIP) and property, plant and equipment (PPE) related to the District Council's capital programme may be misstated if:

- the classification between operational and capital costs on initial recognition is incorrect;
- subsequent impairment of WIP is not identified and recorded; and
- assets are not capitalised in a timely manner on completion.

Our audit of capital costs included the following:

- We reviewed the processes used by management to assess and account for work in progress;
- We selected a sample of costs incurred during the year to ensure these are capital in nature, are correctly classified in the annual report, and complied with the accounting policy; and
- We reviewed costs transferred out of work-in-progress on completion and ensured these have been correctly accounted for and appropriate useful lives and commission dates have been applied on commencement of depreciation.

No areas of concern were identified through our testing.

### **3.4 The risk of management override of internal controls**

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.

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 an inherent risk of material misstatement due to fraud, which audit standards require us to consider in every audit.

To address the risk of management override, we carried out substantive procedures, including reviews of journal entries, accounting estimates, and significant transactions that are outside the normal course of business.

We did not identify any matters of concern to bring to your attention.

### **3.5 Procurement practices**

The District Council uses many different kinds of goods and services. Procurement is the process that public organisations use to acquire and manage these goods and services. It is important that the District Council get the best possible outcomes from public spending on these goods and services.

We reviewed the District Council's procurement policy against best practice guidance. Our review found that there are a number of aspects where the District Council's procurement policy needs improvement to ensure it provides an appropriate framework for procurement activity. We recommend the next revision of the policy include a comparison with the Government Procurement Rules, to ensure all good practice elements are reflected in the policy. As a minimum, we would expect the policy to be amended to:

- explicitly state the District Council commitment to the Principles of Government Procurement set out in the Government Procurement Rules (issued by Ministry of Business, Innovation and Employment (MBIE) (refer section seven for further information));



- clarify the scope of the policy to ensure it is clear that the policy applies to consultants that may be assisting the District Council with procuring activities and third party agents acting on the District Council’s behalf in procurement matters. In addition, clarifying whether the policy covers activities not traditionally included such as credit cards, fuel card, purchasing card, and purchase order procurements (in our view, these procurements should be required to apply the principles as a minimum);
- clarify inconsistencies in the application of the requirements for seeking exemptions to the policy;
- clarify the application of the policy in emergency situations (as defined by MBIE in the GPR) and that the definition of “urgency” in the policy does not cover a lack of planning for the procurement (which may create an urgent situation as currently defined);
- enhance the coverage of the policy related to gift and hospitality to ensure it covers all situations, not just those that occur during a procurement process;
- include references to the good practice guidance available at [www.procurement.govt.nz](http://www.procurement.govt.nz); and
- include policy on dealing with procurement complaints.

**Management comments**

*Staff will undertake to review and update the procurement policy prior to Christmas and include the recommendations that are listed above.*

## 4 Assessment of internal control

The Council, with support from management, is responsible for the effective design, implementation, and maintenance of internal controls. Our audit considers the internal control relevant to preparing the financial statements and the service performance information. We review internal controls relevant to the audit to design audit procedures that are appropriate in the circumstances. Our findings related to our normal audit work, and may not include all weaknesses for internal controls relevant to the audit.

### 4.1 Control environment

The control environment reflects the overall attitudes, awareness, and actions of those involved in decision-making in the organisation. It encompasses the attitude towards the development of accounting and performance estimates and its external reporting philosophy, and is the context in which the accounting system and control procedures operate. Management, with the oversight of Council, need to establish and maintain a culture of honesty and ethical behaviour through implementation of policies, procedures, and monitoring controls. This provides the basis to ensure that the other components of internal control can be effective.

We have performed a high-level assessment of the control environment, risk management process, and monitoring of controls relevant to financial and service performance reporting. We considered the overall attitude, awareness, and actions of the Council and management to establish and maintain effective management procedures and internal controls.

Overall, we concluded that the control environment is effective.


### 4.2 Internal controls

Internal controls are the policies and processes that are designed to provide reasonable assurance as to the reliability and accuracy of financial and non-financial reporting. These internal controls are designed, implemented and maintained by the Council and management.

We reviewed the internal controls, in your information systems and related business processes. This included the controls in place for your key financial and non-financial information systems.

We found that the controls are design effective and have been operating effectively throughout the period, to enable us to plan and undertake a controls reliance audit for payroll. Controls were not relied on for other transactions rather it was more efficient to take a substantive approach.

## 5 Public sector audit

The District Council is accountable to their local community and to the public for its use of public resources.  Every person who pays taxes or rates has a right to know that the money is being spent wisely and in the way that the District 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 District Council has fairly reflected the results of its activities in its financial statements and non-financial information.

We also consider if there is any indication of issues relevant to the audit with:

- compliance with its statutory obligations that are relevant to the annual report;
- the District Council carrying out its activities effectively and efficiently;
- the District 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 District 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.

In October 2020, the OAG released an update to their good practice guidance on sensitive expenditure “Controlling sensitive expenditure: Guide for public organisations”.

We have reviewed the District Council’s policies for sensitive expenditure against the OAG’s updated guidance and identified several aspects which are not yet incorporated into the District Council’s policies. These are included in Appendix 2.

### **Recommendation**

We recommend management update sensitive expenditure policies to include additional matters included in the OAG’s updated sensitive expenditure guidance, where relevant to the District Council.

### **Management comments**

*Staff will undertake to review and update the sensitive expenditure policy prior to Christmas and include the recommendations that are listed above.*

## 6 Key changes to the Government Procurement Rules

The Government Procurement Rules (Rules) have had two new rules added. As well as these changes, the Government has introduced a “Progressive Procurement Policy” in which agencies must increase the diversity of their suppliers. One of the key features of the policy is that mandated agencies (those who are required to comply with the rules) are required to adopt a target that “five percent of the total number of procurement contracts are awarded to Māori businesses”. Further details of these changes are noted below:

### Procurement response measure

From 1 June 2021 the Procurement response measure rule came into effect. This new rule (12A) allows the Ministry of Business, Innovation and Employment (MBIE) as Procurement Functional Leader (PFL) to respond to a policy priority, emergency, or crisis by declaring appropriate procurement response measures (a procurement measure), to help achieve specific outcomes and drive positive change across the government procurement system.

By declaring a procurement measure, the PFL can mandate and deliver targeted interventions at a national, sectoral, or regional level. Procurement measures may be applicable to some or all mandated agencies and their procurement activities. They are put in place for a set period to support defined objectives.

Further details can be found at: [Procurement response measure guidance](#)

### Quality employment outcomes

A new rule 18A will come into effect on 1 October 2021. This rule requires mandated agencies to consider quality employment opportunities for New Zealanders. This is in addition to previous changes in 2019 on [Broader Outcomes](#) in the Rules. MBIE have advised guidance and training will be available before the new Rule comes into effect.

### Te Kupenga Hao Pāuaua – Progressive Procurement

On 3 December 2020 the government [announced](#) a further change to procurement policy for mandated agencies. Te Puni Kōkiri and MBIE have worked in partnership to develop the progressive procurement approach aimed at increasing the diversity of government suppliers, starting with Māori businesses. The Ministers for Māori Development and Economic and Regional Development [announced](#) a target to encourage public agencies to “cast the net wider” when awarding contracts. The progressive procurement policy is called Te Kupenga Hao Pāuaua. Translated it means cast the fishing net wide and be enterprising.

The main features of the “Progressive Procurement Policy” are:

- The definition of a Māori business as a Māori authority (as classified by the Inland Revenue Department) or a business with minimum 50% Māori ownership.
- A target that 5% of the total number of buyer (mandated government agencies) procurement contracts are awarded to Māori businesses.
- Intermediary organisations to act as a broker, matching and connecting buyers and suppliers to realise procurement opportunities. Further, brokers can assist with verifying supplier businesses as meeting the definition of Māori business.
- Supporting sustainable, long term behavioural change of government agencies and businesses’ procurement practices.

Details on this initiative can be found at the Te Puni Kōkiri website for [Progressive Procurement](#) including [information for buyers](#).

We encourage procurement staff to understand the changes, and prepare for their implementation by considering the changes that are required to Kawerau District Council’s procurement policies, procedures and practices.

#### **Five questions your governing body could ask right now**

- 1 Is our procurement policy up-to-date and consistent with these new rules and policy objectives?
- 2 Are we clear how we implement broader outcomes in our procurement practices – with updated tools, templates, and guidance?
- 3 Do we have complete information on our current suppliers, and can we identify the Māori businesses amongst them?
- 4 What have we done to reach out to our suppliers to identify whether they are Māori businesses?
- 5 What have we done to understand and remove barriers for Māori businesses to compete for our work?

#### **Two next steps**

- 1 Do we know enough about all our suppliers to understand and differentiate between them, so that we can be sure we are “casting the net wide”?
- 2 Have we developed procurement approaches that identify and reach out to Māori businesses, to make it easy for them to compete for contracts?

## Future audits

By 2022 we expect agencies will have implemented the required changes. In future audits we will be reviewing whether mandated agencies have:

- a framework in place regarding broader outcomes and progressive procurement – policies, procedures, tools, and templates;
- are applying the policies in practice consistently and well; and
- ensuring that senior managers and governors have the information they need to monitor and review the organisation’s adherence to the broader outcomes and progressive procurement requirements.

## Appendix 1: Status of previous recommendations

### Open recommendations

Recommendation	First raised	Status
<b>Necessary</b>		
<b>Sensitive expenditure policy</b>		
The District Council undertakes a review of its sensitive expenditure policy with a view to aligning the policy with the <a href="#">“Controlling sensitive expenditure: Guidelines for public entities”</a> issued by the OAG.	2019/20	We identified further areas where the policy could be improved. Refer section five for further information.
<b>Sensitive expenditure testing</b>		
The District Council remind staff of the importance of ensuring expenditure incurred complies with the sensitive expenditure policy and accepted good practice in the public sector.	2019/20	Our testing identified instances where the policy had not been complied with.
<b>Bribery and corruption</b>		
A separate policy or the code of conduct or other ethical guidelines are developed that include bribery and corruption. An effective policy is likely to include: <ul style="list-style-type: none"> <li>• zero tolerance;</li> <li>• definitions;</li> <li>• consequences for breach of policy;</li> <li>• procedures to prevent, detect and respond (for example reporting mechanisms, protections for whistle-blowers, investigations process); and</li> <li>• roles and responsibilities.</li> </ul>	2018/19	A policy has not been developed to include bribery and corruption.
<b>Terminated employees</b>		
Ensure all terminated employees are removed from the payroll system.	2018/19	Our testing identified two former employees who still had delegated authority access in the District Council’s accounts payable module.

Recommendation	First raised	Status
<b>Necessary</b>		
<b>Interests declared in interest register</b>		
All interests are declared and recorded in the interests register and any mitigations to declared interests are included in the minutes of meetings.	2018/19	We performed a search of the Companies and Charities registers and identified interests that had not been declared.
<b>Risk management</b>		
Consider if the current process used to comply with health and safety legislation is still in line with the District Council's overall risk strategy.	2018/19	We noted that injury related incentives remain available and the process had not changed from the prior year.

### Implemented or closed recommendations

Recommendation	First raised	Status
<b>Necessary</b>		
<b>Statement of service performance</b>		
The District Council undertakes a review of its performance framework that takes into consideration the guidance provided by SOLGM <i>Your side of the Deal 2021: Performance Management in the long-term plan.</i>	2019/20	The District Council reviewed their performance framework as part of the 2021-31 long-term plan. No issues identified from our review as part of the long-term plan audit.
<b>Employee entitlements – use of treasury rates</b>		
The District Council perform a review of the discount rates based on recent data to determine if the current discount rate being used is appropriate.	2019/20	The District Council has used current treasury rates.
<b>Procurement policy</b>		
The procurement policy is updated to include sustainability requirements in tender documents and contracts.	2015/16	We have closed this matter following our review of the updated procurement policy. Refer section 3.5 above for further information.



Recommendation	First raised	Status
<b>Review of month end reports</b>		
<p>Creditor master file change reports are prepared and reviewed within one month after month-end.</p> <p>New employee details are included in the master file audit report or the employee details audit report be prepared and reviewed on a monthly basis.</p> <p>Payroll and creditor reconciliations are prepared and reviewed within one month after month-end.</p>	2015/16	No issues identified from our testing of month end reports.

## Appendix 2: Sensitive expenditure policy updates

In October 2020, the OAG released an update to their good practice guidance on sensitive expenditure “Controlling sensitive expenditure: Guide for public organisations”. We have reviewed the District Council’s policies for sensitive expenditure against the OAG’s updated guidance and identified several aspects which are not yet incorporated into the District Council’s policies. These are listed below. We recommend management update the sensitive expenditure policies to include these matters, where relevant to the District Council.

- Claims relating to sensitive expenditure need to be submitted promptly after the expenditure is incurred.
- Claims relating to sensitive expenditure need to be in English or Te Reo Māori (or independently translated before payment).
- If claims for sensitive expenditure required a business case and budget before the expenditure was authorised, an explanation should be provided for any incurred expenditure that is more than the agreed budget.
- Travel policies and procedures should require initial consideration of technology-enabled solutions as opposed to travel in person.
- Policies and procedures should cover rideshare options charged through an app linked to a credit card. If the app is set up to use a personal credit card, the policy should cover processes to distinguish legitimate work expenses from personal expenses.
- Policies and procedures outline that tipping should not in any circumstances be extravagant. Entities should not meet the costs of tipping by staff while they are on entity business in New Zealand, and to pay for tips during international travel only in places where tipping is local practice.
- Any expenditure on farewells or retirements is to be pre-approved at an appropriate level of management, and to be moderate, conservative and in-line with the number of years of service.
- The District Council’s well-being policies outline contributions to social clubs must be prudent and reasonable in terms of the benefit obtained by the organisation.
- The District Council’s well-being policies limit sponsorship of a staff member to those that provide publicity for the organisation and its objectives.
- The District Council ensures that their policy specifically states that receiving cash gifts is unacceptable in any circumstances.

## 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 all instances 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 District 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: <i>International Code of Ethics for Assurance Practitioners</i>, issued by New Zealand Auditing and Assurance Standards Board.</p> <p>In addition to the audit, we have carried out engagements in the areas of the long-term plan audit and the debenture trust deed assurance engagement, which are compatible with those independence requirements. Other than the audit and these engagements, we have no relationship with or interests in the District Council.</p>
Fees	<p>The audit fee for the year is \$99,452, as detailed in our audit proposal letter.</p> <p>Other fees charged in the period are \$86,900, for the audit of long-term plan and review of the debenture trust deed reporting certificate.</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 District Council 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 District Council during or since the end of the financial year.</p>



## **AUDIT NEW ZEALAND**

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**KAWERAU DISTRICT COUNCIL**

**The Meeting of the Audit and Risk Committee will be held on  
Tuesday 9 August 2022  
commencing at 1.00pm**

**AGENDA**

**Apologies**

**Declarations of Conflict of Interest**

Any member having a “conflict of interest” with an item on the Agenda should declare it, and when that item is being considered abstain from any discussion or voting. The member may wish to remove themselves from the meeting while the item is being considered.

**1 Occupational Health and Safety Management System Status (Health and Safety Officer) (509500)**

**Pgs. 1 - 15**

Attached is the report for the Health and Safety Manager covering The OSH Management System.

**Recommendation**

*That the report “Occupational Health and Safety Management System Status” be received.*

**2 Treasury Report to 31 July 2022 (Group Manager, Finance and Corporate Services) (110551)**

**Pgs. 17 - 20**

Attached is a Treasury report from the Group Manager, Finance and Corporate Services covering the period to 31 July 2022

**Recommendation**

*That the report “Treasury report to 30 April 2022” be received.*

**3 Review of Councils Sensitive Expenditure Policy (Group Manager, Finance and Corporate Services) (110820)**

**Pgs. 21 - 30**

Attached is a report on the review of Councils Sensitive Expenditure Policy from the Group Manager, Finance and Corporate Services.

**Recommendation**

- 1. That the report “Review of Councils Sensitive Expenditure Policy” be received.*
- 2. That the Audit and Risk Committee approve the updated Sensitive Expenditure Policy (including any further amendments) for adoption by Council.*

4 **Audit Management Report for year ended 30 June 2021 (Group Manager, Finance and Corporate Services) (201000)**

**Pgs. 31 - 56**

Attached is the Audit Management Report from the Group Manager, Finance and Corporate Services for year ended 30 June 2021.

**Recommendation**

*That the report "Audit Management Report for year ended 30 June 2021" be received.*

R B George

**Chief Executive Officer**

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