

Notice is given that an ordinary meeting of the Audit and Risk Committee will be held on:

**Date:** Monday 24 August 2020  
**Time:** 11.00pm-1.30pm  
**Meeting Room:** Tasman Council Chamber  
**Venue:** 189 Queen Street  
Richmond

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## Audit and Risk Committee

### AGENDA

Join Zoom Meeting

<https://zoom.us/j/92347405383?pwd=UGUvRzFySjFPZHkzSDhmR2NTa2xhZz09>

Meeting ID: 923 4740 5383

Passcode: 235442

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#### MEMBERSHIP

Cr Ogilvie  
Cr Greening  
Cr Hill  
Cr Mackenzie  
Cr Walker  
Mr Graham Naylor

(Quorum 3 members)

Contact Telephone: 03 543 8453  
Email: [christina.ewing@tasman.govt.nz](mailto:christina.ewing@tasman.govt.nz)  
Website: [www.tasman.govt.nz](http://www.tasman.govt.nz)

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## **AGENDA**

### **1 OPENING, WELCOME**

### **2 APOLOGIES AND LEAVE OF ABSENCE**

#### **Recommendation**

**That apologies be accepted.**

### **3 DECLARATIONS OF INTEREST**

### **4 CONFIRMATION OF MINUTES**

**That the minutes of the Audit and Risk Committee meeting held on Wednesday, 3 June 2020, be confirmed as a true and correct record of the meeting.**

### **5 REPORTS OF COMMITTEE**

Nil

### **6 PRESENTATIONS**

Nil

### **7 REPORTS**

7.1 Building Risks.....	5
7.2 Health and Safety Update Report .....	9
7.3 Risk Report.....	17
7.4 Governance Activity Report.....	25
7.5 Annual Report 2020 - Key Audit and Accounting Matters .....	29

### **8 CONFIDENTIAL SESSION**

Nil



## 7 REPORTS

### 7.1 BUILDING RISKS

Information Only - No Decision Required

<b>Report To:</b>	Audit and Risk Committee
<b>Meeting Date:</b>	24 August 2020
<b>Report Author:</b>	Mark Johannsen, Property Services Manager
<b>Report Number:</b>	RFNAU20-08-1

#### 1 Summary

- 1.1 This report is to update the Audit and Risk Committee on the status of our building portfolio in general but particularly addressing earthquake risk and asbestos management.
- 1.2 The current earthquake status of key buildings is set out in Section 4.7. An assessment of the buildings on the Richmond Main Office site has identified the Civic area as 20% of the New Building Standard (NBS). Work is underway to address this. This ongoing review has also identified that the Engineering Services area built in 2012 is likely to be less than 100% NBS and that the rear building occupied by the Resource Consents and Hydrology sections is likely to be less than 34% NBS.
- 1.3 For the rear building occupied by Resource Consents and Hydrology sections. Work is underway to assess earthquake strengthening options and likely costs. These will be considered in light of the future for the buildings and site, being examined through the Accommodation Review process.
- 1.4 Asbestos Assessment reports were completed for Councils buildings in 2018. We have substantially progressed action required in relation to the assessments. We have also engaged a certified asbestos assessor to provide more detailed reports on those properties with elements rated as poor. We will complete the outstanding actions required in this quarter.

#### 2 Draft Resolution

**That the Audit and Risk Committee receives the Building Risks Report RFNAU20-08-1.**

#### 3 Purpose of the Report

- 3.1 To update the Committee on the general status of our building portfolio and the specific areas of 'Earthquake Risk and Asbestos Management'.

#### 4 Background and Discussion

- 4.1 From a Property Management perspective, we are continuing to maintain our buildings to a functional, fit for purpose standard. We are also continuing to address the areas of higher risk, namely earthquake strengthening and buildings with 'Asbestos Containing Materials' (ACM's).

### Earthquake assessments

- 4.2 Tasman District Council is required to undertake seismic assessments of some of its buildings in accordance with the 'Building Act' and its own 'Policy for Earthquake Prone, Dangerous and Insanitary Buildings'. Our offices and public buildings having either been upgraded or their maximum occupancies have been reclassified to meet the standards. An exception is our Richmond Office where as part of our Accommodation Review process we commissioned a current assessment of earthquake strength. This has identified that the Civic area is at 20% of the New Building Standard (NBS) as an IL2 building (general offices). Engineering design is underway to address this. We are addressing this matter as a priority with the aim of completing the work in September.
- 4.3 At the time of writing this report, we have just received advice that the Engineering Services area built in 2012 is likely to be less than 100% NBS and that the rear building occupied by the Resource Consents and Hydrology sections is likely to be less than 34% NBS. This is primarily due to the use of non-ductile mesh in the flooring slab. We are awaiting the detailed report and an indication of the options to upgrade these to an acceptable standard.
- 4.4 It should be noted that the engineering standards are evolving with further changes being introduced following the Kaikoura Earthquake experience which caused the failure of some reasonably modern buildings in Wellington.
- 4.5 Our objective for our buildings housing staff is to get as close to 100% NBS as possible.
- 4.6 Two identified risks in our earlier assessments were the 8 Ball Club building, Motueka which was assessed at 19% of NBS and the chimney at the Imagine Theatre, Motueka. We have removed the chimney at the Imagine Theatre and we are in discussions regarding the sale of the 8 Ball Club building, Motueka with the buyer to be responsible for upgrade works.
- 4.7 The current status of our other major buildings is as follows:

Building	% of NBS
Motueka Service Centre	100%
Motueka Library	60%
Takaka Office	70%
Takaka Library	Post-2000 not assessed
Richmond Library	100%
Murchison Library and Service Centre	67%

### Asbestos Programme

- 4.8 Asbestos Assessment reports were completed for the Councils buildings in 2018. We have substantially progressed action on rectifying any building elements that were identified in the

reports as ACM`s or with assumed ACM`s and had a condition rating of “Poor”. We have also engaged a certified asbestos assessor to provide more detailed reports on those properties with elements rated as poor. Most of the identified issues have been addressed or are noted as being encapsulated and only require a further inspection prior to any disturbance. We will complete the outstanding actions required in this quarter.

The rectifications utilised have involved:

- demolition and removal of material to a certified dump
- removal and replacement of cladding
- replacement of an electrical meter board

Many of the properties were notated as needing further inspection prior to any disturbance.

## **5 Strategy and Risks**

- 5.1 Our strategy is to take all reasonable steps to minimise our risk in these areas by a proactive management approach.
- 5.2 Major earthquake strengthening works for the Richmond office buildings may not be cost-effective. This will be evaluated in light of the Accommodation review.
- 5.3 We are addressing the staff Health and Safety implications for staff working in buildings with a low earthquake rating. This may result in the need to relocate staff to alternative premises while solutions are found and put into place.

## **6 Policy / Legal Requirements / Plan**

- 6.1 Council is complying with the Building Act and its own Policy for Earthquake Prone, Dangerous and Insanitary Buildings.

## **7 Consideration of Financial or Budgetary Implications**

- 7.1 There is a budget provision for earthquake strengthening which will be carried over to the 2020-21 financial year. This budget did not envisage the level of works that may be required for the rear building on the Richmond Office site.
- 7.2 Asbestos risk mitigation works are being funded through the individual properties maintenance budgets or from CAPEX budgets when a related building project is occurring.

## **8 Conclusion**

- 8.1 Good progress has been achieved this year on the buildings with the most at risk asbestos-containing elements and those buildings will be completed this year.
- 8.2 Earthquake strengthening works will be progressed in the Richmond Main Office (Civic area and rear building) during 2020-21. The strengthening or replacement of the rear building (Richmond Main Office) will need to be considered in the context of the future office space

requirements being identified through the Accommodation Review. In the meantime, work is underway to identify temporary solutions to ensure staff safety.

Item 7.1

**9 Next Steps / Timeline**

- 9.1 Work will continue to address the identified issues regarding ACM's and structural elements in our buildings.
- 9.2 The formal reports will be received on the earthquake assessments for the Richmond Office buildings. From these cost estimates will be prepared for upgrade/replacement.
- 9.3 Options for the relocation of staff from the Richmond site rear building occupied by the Resource Consents and Hydrology sections are being assessed.

**10 Attachments**

Nil



**7.1 HEALTH AND SAFETY UPDATE REPORT****Information Only - No Decision Required**

<b>Report To:</b>	Audit and Risk Committee
<b>Meeting Date:</b>	24 August 2020
<b>Report Author:</b>	Joanna Cranness, Human Resources Manager
<b>Report Number:</b>	RFNAU20-08-2

**1 Summary**

- 1.1 The report briefly sets out the current process for Health and Safety reporting and provides an opportunity for the Committee to discuss the six-monthly Health and Safety indicators and monitoring report (**Attachment 1**).
- 1.2 The report covers the time of the COVID-19 lockdown as well as the recovery period. This is evident in the lower number of incidents at Level 4 and level 3 and the higher level of sick leave during the reporting period. There were no notifiable events and there are no outstanding audit corrective actions.
- 1.3 A copy of the Council's 'Officers Due Diligence Plan' is included for your reference and information. (**Attachment 2**).

**2 Draft Resolution**

**That the Audit and Risk Committee receives the Health and Safety Update Report RFNAU20-08-2;**

**3 Purpose of the Report**

- 3.1 The purpose of this report is to provide the Committee with information on Health and Safety and to provide an opportunity for the Committee to discuss the latest indicators and monitoring report, and other Health and Safety governance matters.

**4 Background and Discussion**

- 4.1 This report provides an opportunity for the Committee to discuss the six-monthly Health and Safety indicators and monitoring report (**Attachment 1**).
- 4.2 Some effects of COVID-19 are evident in the report such as very low number of Health and Safety incidents occurring during Alert Level 4 and 3 lockdowns, and a higher amount of sick days taken this period compared to the previous reporting period.
- 4.3 For your information the current process for Health and Safety reporting is as follows:

- 4.3.1 A six-monthly report on Health and Safety is presented by the Chief Executive to Full Council, and so by default is presented to all Councillors' and the Leadership Team.
- 4.3.2 Health and Safety is a permanent fixture of the six-weekly CEO report to Full Council and forms part of the Management reporting by each Department Manager to the various Standing Committees, or in the absence of a Standing Committee (as with the Corporate and Governance Services Department) this is reported to the Full Council.
- 4.3.3 Specific significant Health and Safety matters (e.g. Commercial Activities, Enterprise Risk, and Asbestos Management) are reported separately to the Committee as required or requested.
- 4.4 A copy of the six-monthly Health and Safety Indicators and Monitoring Report that was presented to the 30 July Full Council meeting is attached (see Attachment 1).
- 4.5 A copy of the Officer Due Diligence Plan is also attached for your reference and information (see Attachment 2).

<b>5 Attachments</b>
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1.	Health and Safety Indicators and Monitoring Report	11
2.	Tasman District Council Due Diligence Plan	15

# Health and Safety Indicators and Monitoring Report – for Six Month Period 1 January to 30 June 2020

(\*Full Year Event Statistics)

**Health and Safety Commitment – We are amongst the best when it comes to health and safety performance and care for people**

<b>Leadership</b>	<b>Visible Commitment and Decision Making</b>	Currently no specific H&S leadership indicators have been identified because the demonstration of safety leadership is fundamental to the Council (PCBU) effectively managing its H&S responsibilities and is interwoven through everything we do. This includes performance goals/KRAs, induction processes, and safety leadership training.
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<b>Accident / Incident Events</b>	Notifiable Events	No notifiable events reported this period	Outstanding audit corrective actions
	<b>0<sub>(0)</sub></b>		<b>0<sub>(0)</sub></b>

H&S Event Statistics to 30 June 2020  
Employees

Injuries / Illness	6 Mths	FY2019	FY2018
Fatalities	0	0	0
Lost time injuries	0	1	2
Restricted work	0	2	0
Medical	5	8	8
First aid	6	10	1
No treatment	18	26	24
Totals	29	47	35

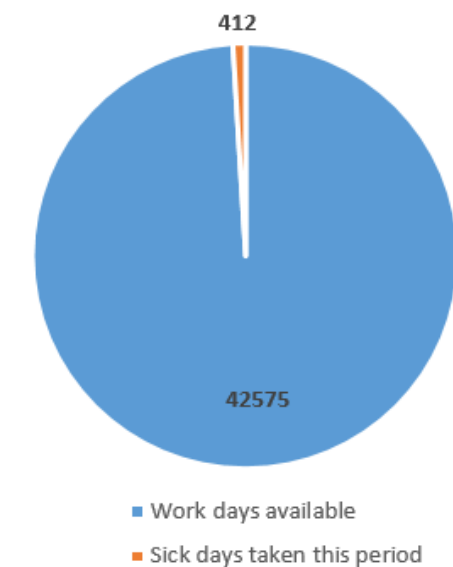
Event Types	6 Mths	FY2019	FY2018
Notifiable	0	1	0
Injury / Illness	14	4	0
Incident	11	31	29
Near miss	4	11	9
Totals	29	47	38

H&S Event Statistics to 30 June 2020  
Public and Volunteers

Injuries / Illness	6 Mths	FY2019	FY2018
Fatalities	0	0	0
Lost time injuries	NA	NA	NA
Restricted work	NA	NA	NA
Medical	0	1	0
First aid	0	2	1
No treatment	2	4	8
Totals	2	7	9

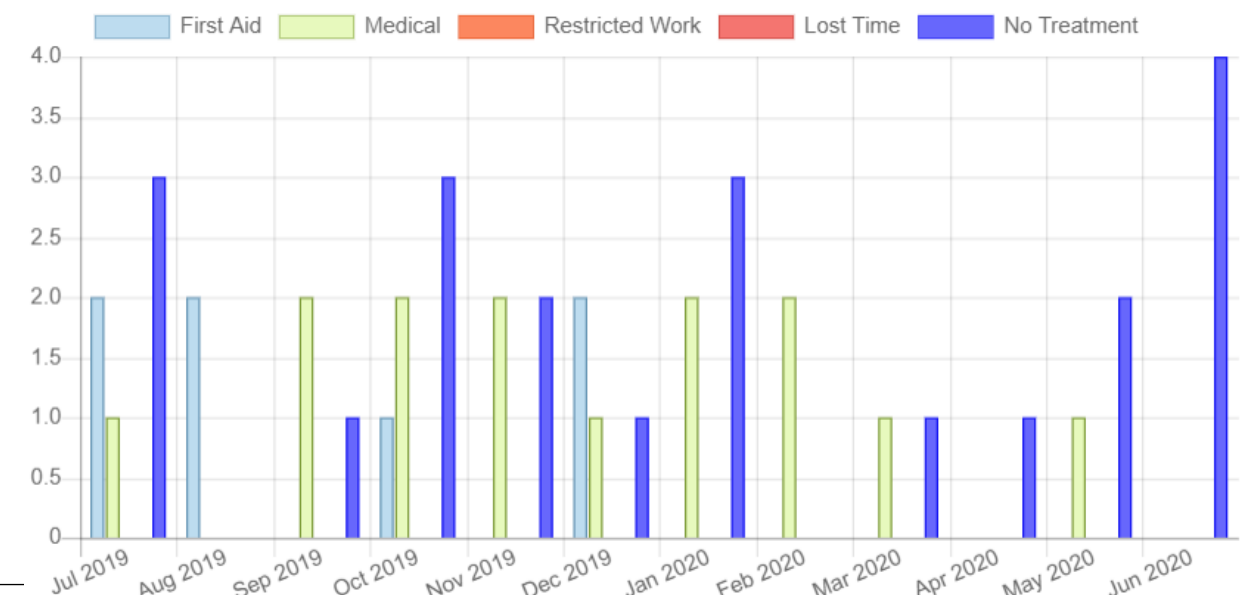
Incident /Near Miss	6 Mths	FY2019	FY2018
Notifiable	0	0	0
Injury	1	0	0
Incident	1	4	5
Near miss	0	0	0
Totals	2	4	5

Sick days taken to total work days available  
(previous period - 102 days)



The graph on the right represents employee injury and illness events for the 12 month period July 2019 to June 2020.

The effects of the COVID-19 Level 4 and 3 lockdown are evident in the statistics as there was only a very small number of minor incidents reported while staff were working from home.





The graph on the left represents employee incidents and near miss events for the 12 month period July 2019 to June 2020.

Analysis of the incident category shows two main reporting areas and these are (1) potential to have caused harm (but did not) – 8 events; (2) vehicles – 6 events; (3) abusive / threatening behaviour – 5 events. There is also a cluster of facilities related events e.g. the fire in the Richmond Office, reactions to fuel / paint / cleaning fumes, lighting issues, and being stuck in the lift.

Again, the effects of the COVID-19 Level 4 and 3 lockdown are evident in the statistics.

Health and safety training completed

**134** (226) staff

1. Child protection for Govt Workers 1 staff
2. Contractor Management 42 staff
3. Driver Awareness (Theory) 14 staff
4. First aid training 4 staff
5. Health & Safety Rep Stage 1 4 staff
6. Basic LT Traffic Control 4 staff
7. Site Traffic Mgmt Supervisor 3 staff
8. Officer Due Diligence 15 staff
9. Resilience and Wellbeing 8 staff
10. Workstation assessments 10 staff
11. Health and safety inductions 17 staff
12. Health and safety for Executives 12 staff

Health & Safety Committee meetings

**3**(3)

Health & Safety Representatives

**8**(8) (H&S Reps elected Nov)

Registered Volunteer Workers

**189**(183)

Flu vaccinations – **159** staff

Eye tests – **12** staff

**Systems**

**Health and Safety Management Systems (HSMS)**

The Council has a Health and Safety Management Systems Manual (HSMS) and this forms the primary framework for managing H&S. It complies with the requirements of the Health and Safety at Work Act.

The Council's corporate H&S policies and processes were reviewed in November 2019. There are 30 corporate H&S processes documented in Promapp and these are updated as required.

Internal H&S Audits / Internal Practice Reviews

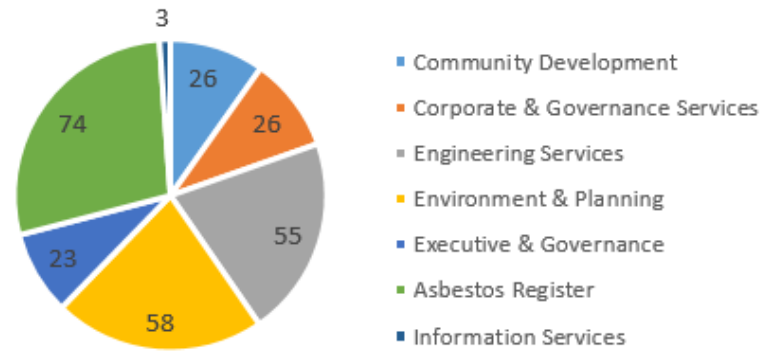
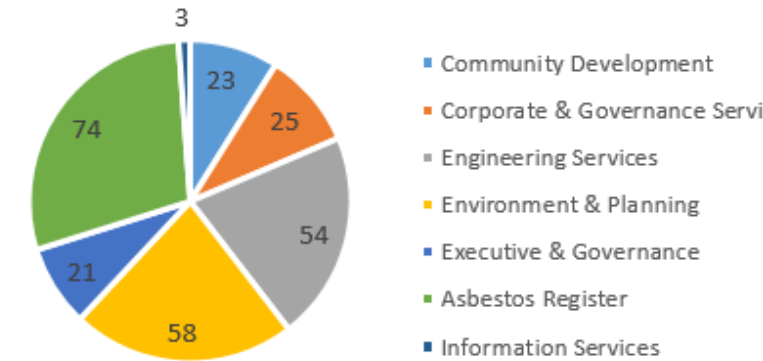
**0**(0)

External H&S audits

**0**(1)

Outstanding audit corrective actions

Audit being reviewed (0)

<b>Risk</b>	<b>Contractor Health and Safety Monitoring</b>	Contractors H&S pre-qualified <b>257</b> <sub>(226)</sub>	Contractors H&S pre-qualification-pending <b>20</b> <sub>(6)</sub>	H&S Event Statistics to 30 June 2020 Contractors  <table border="1"> <thead> <tr> <th>All events</th> <th>6 Mths</th> <th>FY2019</th> <th>FY2018</th> </tr> </thead> <tbody> <tr> <td>Notifiable</td> <td>0</td> <td>0</td> <td>3</td> </tr> <tr> <td>Medical</td> <td>3</td> <td>0</td> <td>0</td> </tr> <tr> <td>First Aid</td> <td>0</td> <td>1</td> <td>1</td> </tr> <tr> <td>No Treatment</td> <td>7</td> <td>19</td> <td>24</td> </tr> <tr> <td>Totals</td> <td>10</td> <td>20</td> <td>28</td> </tr> </tbody> </table> 'No treatment' includes incidents and near miss reports	All events	6 Mths	FY2019	FY2018	Notifiable	0	0	3	Medical	3	0	0	First Aid	0	1	1	No Treatment	7	19	24	Totals	10	20	28
	All events	6 Mths	FY2019		FY2018																							
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No Treatment	7	19	24																									
Totals	10	20	28																									
		Contractor safety observations <b>13</b> <sub>(29)</sub>	Contractor HSMS audits <b>0</b> <sub>(1)</sub>																									
		Contractor Notifiable Events <b>0</b> <sub>(0)</sub>	No notifiable events reported this period  The Council is not informed of every contractor health and safety event, and only records and reports on contractor events that are notifiable to WorkSafe.																									
<b>Risk Management</b>	<b>Risk Management</b>	H&S Risks identified (recorded in Vault) <b>263</b> <sub>(263)</sub>	Critical Residual Risks (risk rating of ≥15) <b>0</b> <sub>(0)</sub>	Critical Risk corrective actions raised <b>0</b> <sub>(0)</sub>																								
		Total # of Risks Identified by Department January to June 2020 		Total # of Risks Identified by Department July to December 2019 																								
<b>Communication</b>	<b>Sharing Information</b>	Currently no specific H&S communication indicators have been identified because communication and sharing information on H&S is fundamental to the Council (PCBU) effectively managing its H&S responsibilities and is interwoven through everything we do. This includes formal contract documentation, site meetings and recorded safety observations.																										



## Tasman District Council Officers Health and Safety Due Diligence Plan

Objectives																					
1. Keep <b>up-to-date</b> with health and safety matters	2. <b>Understand</b> the nature of the Council's business and its hazards and risks	3. Ensure the person running the Council has <b>appropriate resources and processes</b> to manage risks to health and safety	4. Ensure there are appropriate <b>reporting and investigation</b> processes in place	5. Ensure the Council has and implements processes for <b>complying with the Act</b>	6. <b>Verify</b> that the resources and processes in this plan are in place and in use.																
Know	Understand	Resource	Monitor	Comply	Verify																
<p>Seek assurance / evidence that the Council has an effective and positive safety culture.</p> <p>Attend due diligence training.</p> <p>Attend risk and hazard management and other health and safety training.</p> <p>Subscribe to WorkSafe updates, LGNZ health and safety updates, newsletters and magazines.</p> <p>Seek and read information on health and safety case law and regulations.</p> <p>Request and receive regular briefings from CEO and Department Managers.</p>	<p>Attend and participate in Council health and safety workshops, worksite visits, and other health and safety activities</p> <p>Carry out at least two safety observations / conversations per annum.</p> <p>Ensure relevant information about the Council's key critical risks and hazards is reported to Committee and Sub-Committee meetings.</p> <p>Seek assurance / evidence that key critical risks have been identified and controls are regularly reviewed.</p> <p>As Officers, collectively determine and agree an acceptable risk tolerance level.</p>	<p>Ensure that all Council decisions and resolutions provide reasonable funding and resourcing for health and safety activities.</p> <p>Ensure relevant information about the Council's health and safety systems and processes is reported to Committee and Sub-Committee meetings.</p> <p>Seek assurance / evidence that appropriate funding and resourcing for health and safety is included in all major projects and renewal budgets.</p>	<p>Request and receive relevant information about notifiable events, critical risks, lead / lag indicators and other health and safety matters is reported to Council, Committee and Sub-Committee meetings.</p> <p>Seek assurance / evidence that appropriate reporting and investigation processes and methodology exist and is being used.</p> <p>Seek assurance that key staff have been trained to investigate accidents and incidents.</p> <p>Engage in health and safety 'conversations' with Department Managers and other appropriate staff.</p>	<p>Ensure relevant information about the Council's health and safety systems and processes, including application and implementation is reported, to Committee and Sub-Committee meetings.</p> <p>Seek assurance that all employees and contractors meet the Council's health and safety requirements and comply with their own obligations under the Act.</p>	<p>Seek, receive and action reports on the Council's health and safety performance, and on managers' and staff members' health and safety duties.</p> <p>Seek and support audits, reviews and recommendations on the performance of the Council's health and safety management systems and processes.</p> <p>Be personally involved in health and safety activities and issues by attending meetings where safety is a focus, doing safety walk-about, observing and reporting.</p>																
<p><b>Actions:</b> Sight and understand the Council's health and safety management systems, policies and procedures including the Health and Safety Commitment Statement.</p> <p>Seek assurances that the Council's and the other parties 'duty of care' is evident in tender documents, project briefs, leases, licences and other legally binding documents.</p> <p>Seek, consider and respond to six monthly reports to Full Council on the Council's performance against agreed lead and lag health and safety indicators.</p> <p>Receive notification of all notifiable events within 24 hours of the Chief Executive being notified. - <a href="#">WorkSafe definition of a notifiable event</a></p> <p>Seek assurances through Standing Committees reporting that critical risks and hazards are being effectively managed by Council management, employees and contractors.</p> <p>Seek assurances through the Audit and Risk Sub-Committee that critical health and safety risks are identified and managed within an appropriate corporate risk management framework.</p> <p>Request an annual report on the status of health and safety management systems, policies and procedures, WSMP audits and other associated health and safety reviews.</p> <p>Seek, consider and respond to operational health and safety activities and information through Standing Committees reporting.</p> <p>Attend or undertake safety observations/walks, safety meeting/briefings and safety training; and seek and read health and safety information relevant to Council's activities.</p> <p>* Seek, receive and respond to weekly reports to Senior Management Team meetings on health and safety matters including policy, process, compliance, work programmes and individual's wellbeing.</p>																					
<p><b>Indicators:</b></p> <table border="0"> <tr> <td>Officer performance in safety leadership</td> <td>Employee participation in health and safety</td> <td>Lost time injuries and workplace illnesses</td> <td>External audit and review recommendations</td> </tr> <tr> <td>WorkSafe investigations and interventions</td> <td>H&amp;S management systems, policies and procedures</td> <td>Accident, incident and near miss statistics</td> <td>Internal audit and review recommendations</td> </tr> <tr> <td>SafePlus and Safety II guidelines</td> <td>Employee survey results</td> <td>E-Road metrics</td> <td>H&amp;S related employment relations grievances</td> </tr> <tr> <td>Notifiable events</td> <td>H&amp;S Training programmes and attendance</td> <td>Community survey results</td> <td>H&amp;S legislative reporting obligations</td> </tr> </table>						Officer performance in safety leadership	Employee participation in health and safety	Lost time injuries and workplace illnesses	External audit and review recommendations	WorkSafe investigations and interventions	H&S management systems, policies and procedures	Accident, incident and near miss statistics	Internal audit and review recommendations	SafePlus and Safety II guidelines	Employee survey results	E-Road metrics	H&S related employment relations grievances	Notifiable events	H&S Training programmes and attendance	Community survey results	H&S legislative reporting obligations
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SafePlus and Safety II guidelines	Employee survey results	E-Road metrics	H&S related employment relations grievances																		
Notifiable events	H&S Training programmes and attendance	Community survey results	H&S legislative reporting obligations																		

\* This action only applies to the Chief Executive.





**7.3 RISK REPORT****Information Only - No Decision Required**

<b>Report To:</b>	Audit and Risk Committee
<b>Meeting Date:</b>	24 August 2020
<b>Report Author:</b>	Trudi Zawodny, Operational Governance Manager
<b>Report Number:</b>	RFNAU20-08-3

**1 Summary**

- 1.1 This report provides a summary of the Council's key risks and the current risk profile of the Council.
- 1.2 Council's understanding of risk management has matured and the purpose of the Enterprise Risk Register has been clarified as the conduit for which significant risks will be brought to the Audit and Risk Committee, rather than the entire list of risks across the Council.
- 1.3 Council risks are monitored at a functional level with risks rated as 'Extreme' or 'High' or those that are considered significant, brought to the Leadership Team for a decision on whether they should be included in the Enterprise Risk Register and subsequently brought to the attention of the Audit and Risk Committee. Over time we will report on 'Moderate' risk, but only once the full assessments have been completed.
- 1.4 Council's risk profile has identified the following three significant risks which currently sit outside of the Council's agreed risk appetite.
  - 1.4.1 Community expectations for the Council to respond to or mitigate anticipated climate change effects cannot be met due to resource and practical limitations.
  - 1.4.2 Staff being hit by a moving vehicle while working on roadsides and in live lanes
  - 1.4.3 A disaster event
- 1.5 One of these risks will move to an acceptable level, however, the remaining two require further analysis.

**2 Draft Resolution**

**That the Audit and Risk Committee receives the Risk Report RFNAU20-08-3;**

### 3 Purpose of the Report

- 3.1 This report provides a summary of the Council's key risks and the current risk profile of the Council.

### 4 Background and Discussion

#### Background

- 4.1 The Enterprise Risk Register contains risks which have been identified at an operational level as having either a High or Extreme risk rating or the current level of risk based on existing controls does not provide sufficient mitigation to reduce the rating to within the acceptable risk level described by the appetite.
- 4.2 A profile of the enterprise risks are shown in section 4.9.
- 4.3 Council's understanding of risk management has matured and the purpose of the Enterprise Risk Register has been clarified as the conduit for which significant risks will be brought to the Audit and Risk Committee, rather than the entire list of risks across the Council.
- 4.4 Council risks are monitored at a functional level with risks rated as 'Extreme' or 'High' or those that are considered significant, brought to the Leadership Team for a decision on whether they should be included in the Enterprise Risk Register and subsequently brought to the attention of the Audit and Risk Committee. Over time we will report on 'Moderate' risk, but only once the full assessments have been completed
- 4.5 Training has recently taken place with all Tier 3 Managers on the new functional approach to risk management and new risk tools have been developed, including:
- 4.5.1 twenty-one new functional risk registers.
- 4.5.2 a 'risk assessment' sheet to ensure a more robust and consistent analysis of risks.
- 4.5.3 new 'Divisional' and 'Enterprise' risk registers.
- 4.6 As the functional areas evaluate their operational risks, this will produce a more accurate risk profile for the Council.
- 4.7 Not all risks have yet been through a full risk assessment using the new tools. As this occurs the risk status of the current risks on the Enterprise Register may change.

#### Risk Profile

##### Existing risk rating

- 4.8 The heat map below shows the distribution of the Council's 49 risks which are recorded on the Enterprise Risk Register.
- Each bubble represents a number of risks in the same quadrant of the heat map. The more risks in that quadrant, the larger the bubble.
  - This is the risk status using existing controls in place to modify the likelihood or consequence of the risk
  - 6% (or 3 risks) are in the 'high' area.

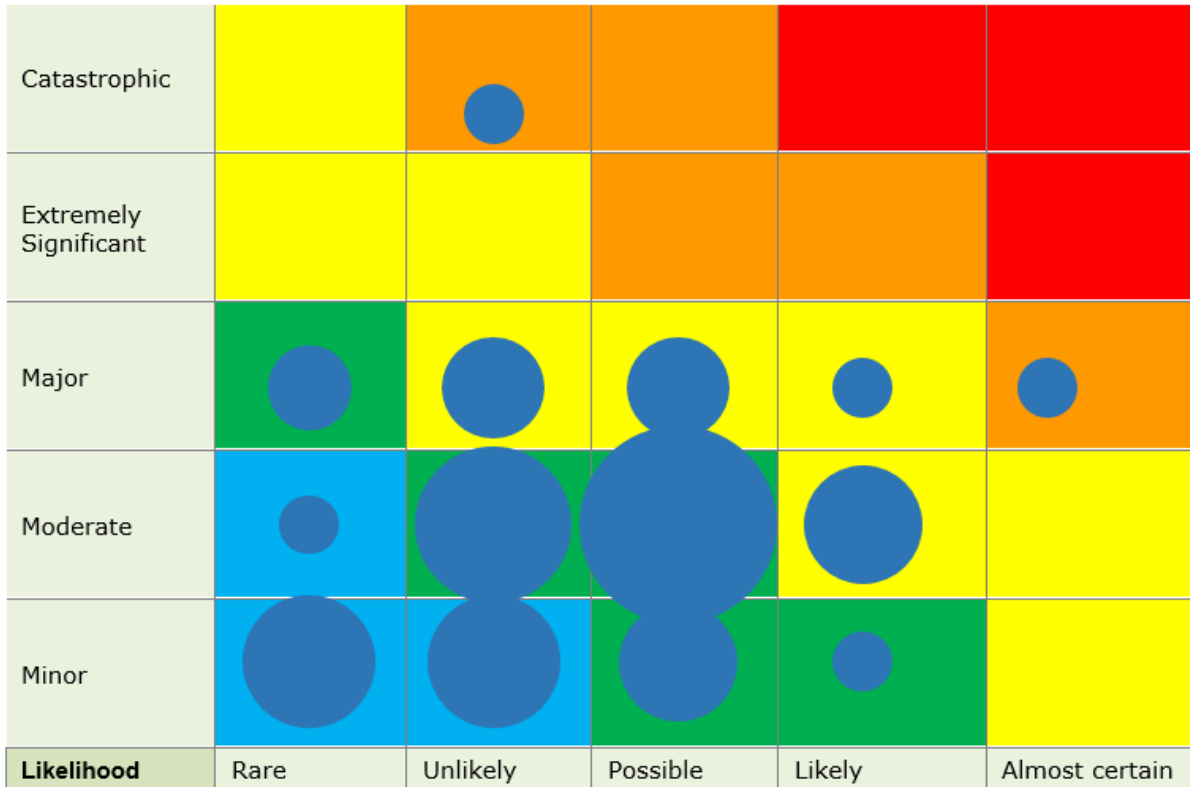
Catastrophic					
Extremely Significant					
Major					
Moderate					
Minor					
<b>Likelihood</b>	Rare	Unlikely	Possible	Likely	Almost certain

Item 7.3

**Residual risk rating**

4.9 The heat map below shows the same distribution of 49 risks, using the ‘residual risk rating’

- Each bubble represents a number of risks in the same quadrant of the heat map. The more risks in that quadrant, the larger the bubble.
- The residual risk rating shows how the risk will move after planned treatments or controls are implemented.
- 4% of the risks remain in the ‘high’ area and require further analysis and treatment to bring them within acceptable levels.



### ‘Significant’ Risk Analysis

‘Significant’ risks are those that either has an Existing or Residual risk rating that is either ‘high’ or ‘extreme’, and the risk exceeds the risk appetite.

### Existing Risk Rating

4.10 The table below identifies three significant risks based on current controls

<b>Consequence</b>	<b>Catastrophic</b>	Moderate	High <b>R070</b>	High	Extreme	Extreme
	<b>Extremely Significant</b>	Moderate	Moderate	High <b>R049</b>	High	Extreme
	<b>Major</b>	Low	Moderate	Moderate	Moderate	High <b>R042</b>
	<b>Moderate</b>	Very low	Low	Low	Moderate	Moderate
	<b>Minor</b>	Very low	Very low	Low	Low	Moderate
	<b>Rare</b>	<b>Unlikely</b>	<b>Possible</b>	<b>Likely</b>	<b>Almost certain</b>	
	<b>Likelihood</b>					

### Residual risk rating based on future controls

- 4.11 The table below shows where the significant risks will move to once the mitigations/controls have been implemented.
- 4.12 Two of the risks (R070 and R042) will not have changed their overall risk rating, which indicates that further analysis and mitigations are required.
- 4.13 The third risk (R049) has undergone a full risk assessment and additional treatments have been identified which will move it to within an acceptable tolerance level consistent with the Risk Appetite.

Item 7.3

<b>Consequence</b>	<b>Catastrophic</b>	Moderate	High <b>R070</b>	High	Extreme	Extreme
	<b>Extremely Significant</b>	Moderate	Moderate	High	High	Extreme
	<b>Major</b>	Low	Moderate <b>R049</b>	Moderate	Moderate	High <b>R042</b>
	<b>Moderate</b>	Very low	Low	Low	Moderate	Moderate
	<b>Minor</b>	Very low	Very low	Low	Low	Moderate
		<b>Rare</b>	<b>Unlikely</b>	<b>Possible</b>	<b>Likely</b>	<b>Almost certain</b>
<b>Likelihood</b>						

4.14 The table below provides more details of significant risks identified in the tables above.

<b>Risk Ref</b>	<b>Risk Description</b>	<b>Consequence</b>	<b>Existing Rating</b>	<b>Residual rating</b>	<b>Commentary</b>
R042	Community expectations for the Council to respond to or mitigate anticipated climate change effects cannot be met due to resource and practical limitations.	Results in reputational damage for the Council.	<b>High</b>	<b>High</b> ↔	No change. Further analysis and mitigations are required.
R070	Staff being hit by a moving vehicle while working on roadsides and in live lanes	Results in a notifiable incident.	<b>High</b>	<b>High</b> ↔	No change. Further analysis and mitigations are required
R049	A disaster event.	Impacts the Council's ability to deliver essential services.	<b>High</b>	<b>Moderate</b> ↓	This risk has been reassessed and additional treatments considered. It is now within acceptable

					tolerance level (moderate).
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No change = ⇔

Decrease in risk rating = ↓

Increase in risk rating = ↑

**Risk Appetites**

4.15 The table below is a summary of the Council risk appetites and the number of current risks which are associated with the appetite.

Key Risk Appetites	Risk Appetite	Current number of risks associated with appetite
1. Health and well-being	Very low	9
2. Maintaining sufficient water supply	Low	0 <sup>1</sup>
3. Information and data management	Low	0 <sup>2</sup>
4. Compliance with legislative requirements	Low	8
5. Ability to collect rates	Low	1
6. Staff shortage (operational resilience)	Moderate	2
7. Public infrastructure supply	Moderate	0 <sup>3</sup>
8. Effects of climate change	Moderate	1
9. Information technology failures	Moderate	2
10. Financial limits	Moderate	1
11. Retaining staff and institutional knowledge	Moderate	2
12. Managing assets, safety equipment and systems	Moderate	8
13. Fostering partnerships and community engagement	Moderate	3

<sup>1</sup> The identified risks associated with water supply are being managed at project level. Work will need to be undertaken to identify operational risks in this area.

<sup>2</sup> Risk in this are currently under review

<sup>3</sup> The identified risks associated with public infrastructure supply are being managed at project level. Work will need to be undertaken to identify operational risks in this area

## Item 7.3

Key Risk Appetites	Risk Appetite	Current number of risks associated with appetite
14. Project Delivery risk	Moderate	3
No current risk appetite – analysis required		9

#### 5 Next Steps / Timeline

- 5.1 Risk owners are to complete a full risk assessment of the risks identified in the Enterprise Risk Register.

#### 6 Attachments

Nil



**7.4 GOVERNANCE ACTIVITY REPORT****Information Only - No Decision Required**

<b>Report To:</b>	Audit and Risk Committee
<b>Meeting Date:</b>	24 August 2020
<b>Report Author:</b>	Trudi Zawodny, Operational Governance Manager
<b>Report Number:</b>	RFNAU20-08-4

**1 Summary**

- 1.1 This report covers a range of Operational Governance activities. The purpose of the Operational Governance function is to assist the Council to achieve its objectives by providing support in a number of areas including responding to LGOIMA requests, Risk Management Processes and Internal Policy Management.
- 1.2 Risks are covered in a separate report.
- 1.3 The Delegations Register was last published in June 2020, with the next version due for publication in September 2020.
- 1.4 Ombudsman Enquiries – At the start of April the Council had six investigations underway with the Office of the Ombudsman. Of these, three have been closed and the remaining three are either waiting for their final decision or if they require additional information. The last three months saw the Office of the Ombudsman undertake two preliminary investigations.
- 1.5 LGOIMA requests for the 12 month period July 2019 to June 2020 – 93% were answered within the statutory time frame.
- 1.6 Business Continuity Planning – all functional areas have a draft plan. A review of the Pandemic Response Plan is underway, incorporating lessons learnt from the COVID-19 response.
- 1.7 Privacy – there are no reported privacy breaches for the period from April to June.

**2 Draft Resolution**

**That the Audit and Risk Committee receives the Governance Activity Report RFNAU20-08-4;**

### 3 Purpose of the Report

- 3.1 This report provides a summary of the Council's Governance activities for the period April to June 2020.

### 4 Background and Discussion

#### Delegations Register

The Delegations Register (V3.6) was updated in June 2020 with the following changes:

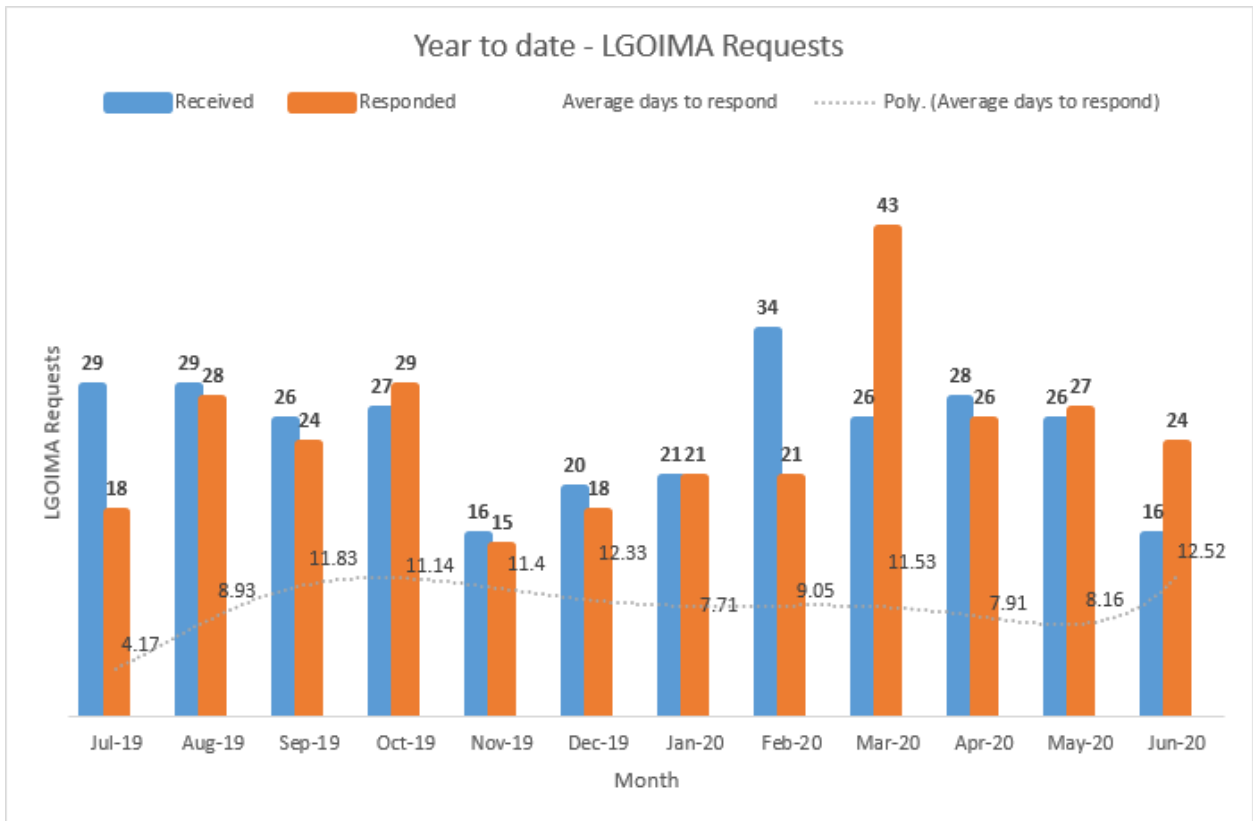
Part Two	<ul style="list-style-type: none"> <li>▪ Updated Representatives and Appointments CN 20-02-03</li> <li>▪ Updated Representatives and Appointments with the outcome of Motueka By-election</li> </ul>
Part Three	<ul style="list-style-type: none"> <li>▪ Updated Chief Executives delegations CN 20-04-17</li> <li>▪ Financial Management delegations CN 20-04-17</li> <li>▪ Functional delegations CN 20-04-17</li> <li>▪ New 5.4(g) – approved by CE</li> </ul>
Part Four	<ul style="list-style-type: none"> <li>▪ CN 20-04-17</li> <li>▪ Updated Property Law Act</li> </ul>
Part Five	<ul style="list-style-type: none"> <li>▪ Updated Saxton Field Committee – CN 20-04-32</li> <li>▪ Updated Operations Committee - CN 20-04-17</li> <li>▪ Added Advisory Groups – CN 20-05-5</li> </ul>

The next update to the printable Delegations Register (V3.7) will be made in September.

#### Ombudsman

- 4.1 At the start of April, the Council had six investigations underway with the Office of the Ombudsman.
- 4.2 Of these, three have been closed following communications with the Office of the Ombudsman.
- One was resolved through the Council clarifying a previous response.
  - One was resolved through the Council explaining its position and the complainant responding that they want to pursue the matter.
  - One was solved when the Office of the Ombudsman found that “the Council was entitled to refuse the request, on the basis that it requires substantial collation or research, and that its consultation with [the complainant] do not appear to be contrary to the law.”
- 4.3 There are three outstanding investigations and these have been ongoing for some time. The Council has responded to the Office of the Ombudsman on all three investigations and is waiting for their final decision or if they require additional information.
- 4.4 The last three months saw the Office of the Ombudsman undertake two preliminary investigations.
- 4.5 The Ombudsman chose to ‘not investigate further’ one of the complaints following the Council agreeing to write to the complainant outlining our position. The other is still outstanding.

#### LGOIMA



4.6 This graph shows the number of requests we have received, responded to and the average number of days to respond for each month for the last calendar year. Things to note:

- June and November are the quietest months for the year.
- There is a correlation between requests being received in one month and answered in the next.
- The average number of ‘days to respond’ increased in June as the requests we received in May/June were more complex or required longer to get the information together.
- The peaks in requests are not seasonal, rather they relate to district activity that interests the community e.g. Waimea Dam, Golden Bay Grand Stand.
- Year to date, Environment and Planning has received the most requests, followed by Corporate and Governance Services then CCO-WWL.
- 6.71% of requests (25) were responded to over the 20 working days statutory limit.

**Business Continuity Planning**

4.7 Business Continuity Plans have been developed for each functional area, however, these are not complete due to current workload commitments. The deadline for completing these has been extended to September 2020.

4.8 A review of the effectiveness of the Pandemic Plan, taking into account the lessons learnt from COVID-19, has been initiated.

**Privacy**

4.9 There have been no reported Privacy breaches this period.

**Item 7.4**

4.10 Privacy and Complaints overview training has been provided to the Customer Services and Finance teams.

**5 Next Steps / Timeline**

5.1 The key priorities for the next quarter are the completion of the Audit and Risk Committee Review.

**6 Attachments**

Nil

**7.5 ANNUAL REPORT 2020 - KEY AUDIT AND ACCOUNTING MATTERS**

Information Only - No Decision Required

<b>Report To:</b>	Audit and Risk Committee
<b>Meeting Date:</b>	24 August 2020
<b>Report Author:</b>	Charlotte Thomas, Financial Accountant
<b>Report Number:</b>	RFNAU20-08-5

**1 Entities Summary**

- 1.1 This Report does not cover the standard range of Internal Audit and Process matters. The focus of this Report is to provide an update on the key issues, judgements and assumptions which will affect the Annual Report for the year ended 30 June 2020.
- 1.2 Due to audit resourcing and the additional complexities created by the worldwide COVID-19 pandemic, the Council audit timeline may need to be extended. Legislation has been passed to extend the statutory time frame for the completion of the Annual Report to 31 December 2020. There may be an emphasis of matter for example, due to a lack of audit evidence or a significant level of uncertainty in the audit opinion in relation to the impacts of Covid-19 on Council or its CCO's.
- 1.3 Audit fees are likely to be higher than budgeted due to the additional work required for both Covid-19 reviews and the treatment of Waimea Water Ltd on consolidation.
- 1.4 COVID-19 Impact Assessment. An updated summary impact assessment on Council's assets is provided in **Attachment 2**.
- 1.5 Expect significant variances to the prior year and budget due to revaluations and impairments.
- 1.6 Expect significantly increased disclosures related to COVID-19 impacts.
- 1.7 New accounting standards related to the jointly controlled Entities are effective for this Annual Report.
- 1.8 Accounting for Councils interest in Waimea Water Ltd under the new accounting standards is complex, external advice has been sought which is being refined before sending to Audit NZ for comment.
- 1.9 The Infrastructure asset valuation has been delayed due to data issues which are being worked through and are expected to be materially resolved before the September Audit.

**2 Draft Resolution**

## That the Audit and Risk Committee receives the Annual Report 2020 - Key Audit and Accounting Matters RFNAU20-08-5 ;

### 3 Purpose of the Report

- 3.1 The focus of this report is to provide an update on the key issues, judgements and assumptions which will affect the Annual Report for the year ended 2020.

### 4 Background and Discussion

Reference	Annual Report 2020
4.1	<p><b>The Audit Timeline, Opinion and fees</b></p> <p>COVID-19 has added significant complexity to many audits, which requires more time. To ensure a high-quality audit, auditors need to fully consider the estimates and judgements made by public organisations and the supporting evidence. This is likely to require a change in the audit approach and require additional work. As a result of the COVID-19 pandemic, the amount of work that will be required by all organisations and the auditors will be significantly increased. The OAG letter (<b>Attachment 1</b>) updates you on the key matters regarding statutory reporting time frames and audits.</p> <p>Although effects will vary between organisations, the impact is system-wide. For example, the Chief Executive of the External Reporting Board has noted that up to 40% additional audit effort may be needed on certain audits.</p> <p>Parliament passed legislation on 5 August to extend the statutory reporting time frames by up to two months for organisations with 30 June 2020 balance dates that report under the Crown Entities Act 2004, Crown Research Institutes Act 1992, Local Government Act 2002, Public Finance Act 1989, and State-Owned Enterprises Act 1986.</p> <p>Council's Audit was due to commence on 7 September 2020, and with the Annual Report to be adopted on 22 October 2020. There is now significant uncertainty over the timing of the Audit of the Council and its Joint arrangements. The timing of the audits is outside of Councils control. Council will endeavour to make its best effort to support the process and keep all relevant parties updated. This could potentially impact the audit of the Long Term Plan.</p> <p>The Audit Report might look different to normal. The Auditors will, at a minimum, draw the readers' attention to the organisation's COVID-19 disclosures. In some instances, Auditors might need to provide a qualification of the audit opinion (for example, due to a lack of audit evidence or a significant level of uncertainty). Often, this won't be due to</p>

	<p>any fault of organisations, but simply a reflection of the circumstances.</p> <p>There will also be an additional audit fee associated with the COVID-19 audit response.</p> <p>Further context is provided by the Controller and Auditor-General letter (<b>Attachment 1</b>).</p>
<b>4.2</b>	<p><b>COVID-19 Financial Impact assessment update</b></p> <p>An initial COVID-19 financial assessment was provided to the Audit and Risk Committee in its 3 June 2020 meeting. An update to this is provided in (<b>Attachment 2</b>). The Finance team, with the support of other Council staff, continue to work through these matters. Audit NZ has also provided an extensive questionnaire to assist with the detailed assessments of the implications. The Annual Report will include further details on the performance and financial implications of COVID-19 including the impact on Council’s revenue and expenses, including its jointly controlled Entities.</p>
<b>4.3</b>	<p><b>What to expect in the Financial Statements</b></p> <p>Expect significant variances to Past Year and/or Budget in the Financial results due to:</p> <ul style="list-style-type: none"> <li>- Revaluation of infrastructure assets resulting in movement in asset values and gain on revaluation.</li> <li>- Revaluation of forestry assets.</li> <li>- Forestry harvesting revenue due to increased harvest volumes.</li> <li>- Vested asset income due to subdivisions.</li> <li>- Development contribution income to ongoing increased development in the region.</li> <li>- Market movement of interest rate swaps.</li> <li>- Possible impairments in Joint Ventures.</li> <li>- Possible impairments of Work in Progress.</li> </ul> <p>Expect changes to disclosure matters in the Annual Report:</p> <ul style="list-style-type: none"> <li>- <b>Contingent liabilities.</b> Waimea Water Cost overrun provision, a guarantee of loan and disclosures regarding earthquake-prone buildings.</li> <li>- <b>Events subsequent to year-end.</b> Up until the date of signing the Council will need to review events subsequent to year-end which have occurred, particularly as a result of COVID-19 and assess whether they are adjusting or non-adjusting events and whether they require additional disclosures. Noting that Council has applied for significant Government funding under the Shovel Ready projects. This may be disclosed as a non-adjusting event subsequent to</li> </ul>
<b>Financial Results</b>	
<b>Additional disclosures</b>	

	<p>year-end.</p> <ul style="list-style-type: none"> <li>- <b>New Joint Arrangement standards</b> – additional disclosures related to the new standards.</li> <li>- <b>COVID-19 Impacts</b> – Disclosures of the impacts on service delivery, performance, assets and liabilities.</li> <li>- <b>Other critical assumptions and judgements.</b> Other than the matters referred to in this paper there is not expected to be a change to the significant assumptions disclosed in the 2019 Annual Report.</li> </ul>
<b>4.4</b>	<b>Key accounting matters</b>
<b>New consolidation standards</b>	<p>New consolidation and Joint venture standards are effective for the June 2020 Annual Report. This required Council to assess whether each Joint Arrangement is a Joint Operation or a Joint Venture.</p> <p>Joint Operation accounting requires the Council to consolidate its share of the Entities' Revenue, Expenses, Assets and Liabilities. Joint Venture accounting requires the Council to consolidate its share in the net assets of the Entities.</p> <p>A detailed assessment for each relevant entity was prepared and provided to Audit NZ, who agreed with the conclusions. These were reasonably straight forward, and not deemed to be significant areas of judgement, with the exception of Waimea Water Ltd accounting (below).</p>
<b>Waimea Water Accounting</b>	<p>Determining Councils' share of Waimea Water Limited's share of Revenue, Expenses, Assets and liabilities is complex, and there is no precedent due to the structure of the arrangement and also it is the first year of the new accounting standards. External accounting advice has been sought and is currently being refined before providing to Audit NZ.</p> <p>The provisional assessment concludes that:</p> <p><b>Revenue and Expenses</b> – pre-practical completion, Councils interest is equivalent to its share of ordinary shares. Post completion – 51% being Council's responsibility in line with the Wholesale Water Augmentation Agreements.</p> <p><b>Assets and Current Liabilities</b> - Councils interest is equivalent to its share of ordinary shares.</p> <p><b>Non-Current CIL Loan</b> – At balance date the Council is not deemed to have an interest in this loan, however as the Council is Guarantor for the loan, this is included in the Annual Report disclosures.</p> <p><b>Cost Overrun Provision</b> – disclosure will be provided regarding Councils obligations. This is a contingent liability.</p>
<b>Valuation of forestry and investment property</b>	<p>These valuations are complete and the draft notes are included in <b>(attachment 3)</b>.</p>



<p><b>Infrastructure Asset Valuation data</b></p>	<p>Council holds its infrastructure asset data in its Asset Management Systems which are maintained by the Engineering Department. This data was provided to the valuer for its 3 yearly revaluations for inclusion in the Annual Report as at 30 June 2020.</p> <p>Finance has performed testing of the Infrastructure Asset Data which was provided to the valuer from the Council's Asset Management Systems for the 30 June 2020. An issue with the completeness of the data related to 2019-20 renewal programmes was identified. This will not be resolved in time for the Audit. However this matter has been discussed with Audit NZ and agreed that it is not material. Finance is working with Engineering to ensure the completeness of data going forward.</p> <p>A further matter was found that related to the accuracy of data extractions, this will be resolved in time for the Audit in September 2020.</p>
<p><b>Vested assets</b></p>	<p>A change in accounting policy for the land under roads as part of vested assets has been proposed. Council is to value Land under roads when it vests to Council using a nominal rate, rather than a per hectare rate as in previous years. The 'per hectare' rate is no longer appropriate due to large multi-stage subdivisions. A formal valuation is not required unless the balance is deemed material due to its nature. This matter is pending agreement with Audit NZ.</p>
<p><b>Internal Control</b></p>	<p>Finance is not aware of any financial control breakdowns due to COVID -19. Internal controls operated throughout the lockdown including when staff were working remotely. There are no suspected or known frauds.</p>
<p><b>Impairments</b></p>	<p>There may be some impairment due to write off of work in progress, this may impact Council's reported surplus.</p> <p>Given the impacts of Covid-19 on air travel an impairment of the Nelson Airport Ltd investment is possible, however this would be unlikely to impact the Councils surplus.</p>

## 5 Attachments

- |    |   |    |
|----|---|----|
| 1. | OAG letter - 30 June 2020 statutory timeframes extended final | 35 |
| 2. | COVID-19 Financial Asset Impacts 30 June 2020                 | 39 |
| 3. | Draft note 18 and 19  | 43 |





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| John Ryan

6 August 2020

Tēnā koe

As a result of the Covid-19 pandemic, the amount of work that will be required by your organisations and my auditors to complete statutory reporting is likely to be significantly increased. This letter updates you on the key matters regarding statutory reporting time frames and audits.

### 30 June 2020 statutory time frames extended

Parliament passed legislation<sup>1</sup> on 5 August to extend the statutory reporting time frames by up to two months for organisations with 30 June 2020 balance dates that report under the Crown Entities Act 2004, Crown Research Institutes Act 1992, Local Government Act 2002, Public Finance Act 1989, and State-Owned Enterprises Act 1986. Some other types of organisations, like ports, have had reporting dates amended without the need to change legislation.

The Financial Markets Authority and the New Zealand Stock Exchange have already extended the reporting time frames for many organisations that they regulate, including some public organisations.

The legislation<sup>2</sup> extends the reporting time frames for audited annual reports by up to two months as set out in the table below:

Type of organisation	Current deadline	New deadline
Departments and departmental agencies	30 September 2020	30 November 2020
State-owned enterprises	30 September 2020	30 November 2020
Crown research institutes	30 September 2020	30 November 2020
Crown entities	31 October 2020	18 December 2020
Local authorities	31 October 2020	31 December 2020
Council-controlled organisations	30 September 2020	30 November 2020

The statutory time frames have been extended to ensure that there is no reduction in the quality of your financial and performance reporting of our audits because of the impact of Covid-19.

The extension does not apply to the consolidated financial statements of the Government. If your organisation contributes financial information to the financial statements of the Government, you will need to prioritise the end-of-year Crown financial information system (CFIS) reporting, and my auditors will prioritise this as well. This will add another aspect to the audit process and the different reporting dates between the

<sup>1</sup> See the [COVID-19 Response \(Further Management Measures\) Legislation Bill \(No 2\)](#) at [legislation.govt.nz](http://legislation.govt.nz).

<sup>2</sup> The legislation also extends the time frame for presenting end-of-year performance information on appropriations under section 19B of the Public Finance Act 1989 from 31 October 2020 to 21 December 2020.

Government's financial statements and those of public organisations may require a more defined "two step" clearance process this year.

#### **Consequences for you and for my auditors**

The effects of Covid-19 on financial and performance reporting have been significant. Many public organisations have had to work under extraordinary circumstances, dealing with changes to their spending, revenue, and their service delivery. Many have also had to address complex issues such as the effect of Covid-19 on valuations, expected credit losses, contractual commitments, going concern considerations, and additional performance information about how Covid-19 has affected their activities. Organisations also need to ensure that systems, processes, and underlying data associated with any new Covid-19 spending and related performance information are sufficiently robust for external reporting and audit purposes.

To ensure a high quality of reporting, you will need time to fully consider all the risks and issues affecting your organisation, make the required judgements, document the rationale for those judgements, and make those judgements transparent through enhanced disclosures. Preparers, governors, and auditors will all need time to properly consider these matters.

We expect the year-end financial and performance reporting to reflect the implications of Covid-19, including the judgements, assumptions, and decisions made by public organisations.

Covid-19 has also affected the work of my auditors. Independent assurance is even more critical at a time when unprecedented amounts of public money are being spent, complex issues are arising, and the public sector is being asked to work at speed and under significant pressure.

Covid-19 has added significant complexity to many audits, which requires more time. To ensure a high-quality audit, auditors need to fully consider the estimates and judgements made by public organisations and the supporting evidence. This is likely to require a change in audit approach and require additional work, including matters relating to fluctuations in revenue patterns, additional expenditure, future expectations and assessments of an organisation's control environment, and changes to delegations and other control processes during the lockdown.

We also expect that, in the current circumstances, the audit report might look different to normal. Auditors will, at a minimum, draw the readers' attention to your organisation's Covid-19 disclosures. In some instances, auditors might need to provide a qualification of the audit opinion (for example, due to a lack of audit evidence or a significant level of uncertainty). Often, this won't be due to any fault of your organisation, but simply a reflection of the circumstances.

Although effects will vary between organisations, the impact is system-wide. For example, the Chief Executive of the External Reporting Board has noted that up to 40% additional audit effort may be needed on certain audits.

We are anticipating a level of inefficiency this year, given the disruption caused by Covid-19. In a Covid environment, there are likely to be several effects on audit time and cost. I have considered those carefully and decided on the following approach:

- Where an auditor has been less efficient than normal (such as through the lockdown or arising because of the different reporting dates), my auditors will not be able to seek additional audit fees from public organisations for those inefficiencies.
- As usual, where inefficiencies result from the public organisations providing poor quality information for audit, or where public organisations have not met the timetable that has been agreed with the auditor, my auditors will be able to seek additional audit fees.
- Where there is additional audit effort for the year ended 30 June 2020 as a result of Covid-related risks and issues affecting judgements and disclosures, my auditors will be able to seek additional audit fees for this work.

As usual, my Office will review the additional fees that auditors seek to recover, to ensure that the fees are reasonable. I expect auditors to keep you and my Office informed during the course of the audit to avoid surprises and allow you to work with them to reduce the impact on audit time, where possible.

As always, I ask you to keep the lines of communication open with your auditor. There are likely to be a number of challenges in completing this year's audits and it will be particularly important for auditors and organisations to work closely together in addressing them.

If you wish to discuss this letter further, please do not hesitate to contact your appointed auditor.

Nāku noa, nā



**John Ryan**  
Controller and Auditor-General



Summary - Impact of COVID 19 on Council Assets for Financial Reporting Purposes 30 June 2020						
Councils assets include: Figures in \$000's	30 June 2019 asset balances	Of which from revaluation \$m	DRAFT 30 June 2020 asset balance	Movement	Impact	Key points
Infrastructure assets	1,226,000	500,000	Pending valuation and JV results.	Pending valuation and Joint Operation results.	Limited impact on service expected.	Infrastructure assets are being revalued as at 30 June 2020. No additional valuation assessment is required. There have been some delays with the valuation due to data quality, finance is working closely with the valuer's and will keep audit updated with progress. We anticipate the valuation will be ready for the commencement of audit on 7 September.
Land and buildings	230,000	139,000	Pending Joint Operation results.	Pending Joint Operation results.	Significant short term impact due to closure of facilities.	The value of Land and Buildings as at 30 June 2019 was \$223m, of which \$139 relates to historic revaluations. Valuations are carried out every three years, with the next valuation due 30 June 2021. There is no material risk of impairment of land and buildings. While service potential is temporarily reduced during the lockdown, services resumed by 30 June, and notably there is still growth in the district. Non of Councils property was held for sale at 30 June 2020.
Work in progress	21,000		Pending Joint Operation results.	Pending Joint Operation results.	Potential for project cancellation.	A critical review of project balances is underway, however no projects with significant WIP balances were cancelled due to COVID-19. Work in progress is circa \$20m excluding Joint Ventures.
Forestry assets	44,101	-	47,058	2,957	Potential log prices and sales volumes due to border restricts and economic climate.	Council's forestry assets and investment property have been revalued as at 30 June 2020, and the draft note is included below. This explains the movements, the key assumptions and the impact of COVID 19.  The gain is due to a improvement of asset data, offset by decreased forecast log prices.
Investment property	5,150	-	5,350	200	Decrease in rents due to rent free periods or fall in market rents.	Council obtained an independent Peer Review of the valuation, as recommended by Audit NZ in the prior year. These assets were revalued as at 30 June 2020. The draft note is included below.
Receivables	16,434		13,289		Increased provision may be required for doubtful debts.	Due to the limited market evidence at balance date, there is significant uncertainty associated with the valuations which will be disclosed in the Financial Statements. A critical detailed review of balances has been performed, including review of post 30 June 2020 cash receipts. The draft provision value is \$609k (30 June 2019: \$510k). The increase is primarily related to provision for holiday park rent \$96k. The remaining receivables which have been uncollected or do not have high certainty of payment is immaterial (circa \$500k), and reasonable comfort levels over the collectability of these amounts has been obtained.
Investment in Joint Ventures (previously referred to as associates).	138,000	82,556	Pending Joint Venture results.	Pending Joint Venture results.	Significant impact on Nelson Airport due to flight cancellations.	<b>Councils Joint Ventures:</b> <b>Port Nelson Ltd</b> - no impairments expected <b>The Nelson Bays Heritage Trust</b> - no impairments expected <b>Nelson Airport Ltd</b> - the ongoing border restricts are a significant indicator of impairment. A recoverable amount measured as higher of fair value less cost to sell and value in use will need to be calculated and compared to carrying value. Finance is pending national guidance in this area since other Council Controlled airports will be effected in a similar manner.
Investment in Joint Operations (previously referred to as Joint Ventures)	62,409	16,894	Pending Joint Operation results.	Pending Joint Operation results.	Significant impact on Waimea Water due to delays in Construction.	<b>Councils Joint Operations</b> Nelson Regional Sewerage Business Unit- no impairments expected Nelson Tasman Regional Landfill Business Unit - no impairments expected Nelson Tasman Civil Defence and Emergency- no impairments expected Waimea Water Ltd





**NOTE 18: FORESTRY ASSETS**

Standing forestry assets are independently revalued annually at fair value less estimated costs to sell for one growth cycle. Fair value is determined based on the present value of expected net cash flows discounted at a current market determined rate. This calculation is based on existing sustainable felling plans and assessments regarding growth, timber prices, felling costs and silviculture costs and takes into consideration environmental, operational and market restrictions.

Gains or losses arising on initial recognition of forestry assets at fair value, less estimated point-of-sale costs, from a change in fair value less estimated point-of-sale costs, are recognised in the surplus or deficit.

The costs to maintain the forestry assets, and revenues from harvest, are included in the surplus or deficit when incurred.

30 JUNE 2019	30 JUNE 2020
\$000 FORESTRY ASSETS	\$000
41,220 Balance at 1 July	44,101
<b>Gains (loss) attributable to:</b>	
(5,000) 1. Decrease due to harvest	(5,300)
3,400 2. Advance due to 30 June	3,700
300 3. Update area data and harvest schedule	1,100
- 4. Update crop types and yield tables	9,800
(600) 5. Update costs	(900)
3,300 6. Log price assumption	(5,300)
1,600 7. Discount rate	-
(43) 8. Movement in cost to sell	(46)
64 9. Howard forest JV block	(47)
(140) 10. Other	(50)
<b>2,881 Net gain/ (loss)</b>	<b>2,957</b>
<b>44,101 Balance at 30 June</b>	<b>47,058</b>

**Nature of Forestry Assets**

Council owns 2,293 hectares of planted pinus radiata forest, which are at varying stages of maturity ranging from one to 39 years. Council also owns 203 hectares of planted Douglas fir and 29 hectares of planted Cupressus Species trees.

**Annual Revaluation**

Registered valuers PE Olsen Ltd have valued forestry assets as at 30 June 2020. PE Olsen also provides Council with forest management services. To preserve independence, the valuation presented by PE Olsen Ltd was peer reviewed by Woodlands Pacific Consulting Limited. The recommendations of the peer review were taken into account when determining the fair value of forestry assets.

The forests have been valued on a going concern basis and this only includes the value of the existing crops on a single, and rotation basis. All costs and revenues are expressed in current dollar terms.

**NOTE 19: INVESTMENT PROPERTY**

Properties leased to third parties under operating leases are classified as investment property unless the property is held to meet service delivery objectives, rather than to earn rentals or for capital appreciation.

Investment property is measured initially at its cost, including transaction costs.

After initial recognition, Council measures all investment property at fair value as determined annually by an independent valuer.

Gains or losses arising from a change in the fair value of investment property are recognised in the surplus or deficit.

30 JUNE 2019	30 JUNE 2020
\$000 INVESTMENT PROPERTY	\$000
5,130 Balance at 1 July	5,250
74 Addition (transfer from property, plant and equipment)	348
46 Gain/(loss) on changes in fair value of investment property	(248)
<b>5,250 Balance at 30 June</b>	<b>5,350</b>

Council's investment properties are valued annually at fair value effective 30 June based on open market evidence. The valuations were performed by Duke & Cooke Ltd and Teifer Young, registered valuers. Both are experienced valuers with extensive market knowledge in the types and location of investment properties owned by Council. The fair value of investment property has been determined using the capitalisation of net revenue and discounted cash flow methods. These methods are based upon assumptions including future rental revenue, anticipated maintenance costs, and appropriate discount rates.

COVID 19 Impact: The real estate market that the subject property is transacted in is being impacted by the uncertainty that the COVID-19 outbreak has caused. As at the date of valuation there is a significant market uncertainty. The valuations are based on the current information and factors known at 30 June.

**Explanation of significant assumptions and movements**

1. Removal of areas harvested since 30 June 2019 reduced the tree crop value by \$5.3m (12%). Total harvested volume during the year ended 30 June 2020 was 120,057 tonnes (2019: 68,408 tonnes harvested).
2. Advancing forest maturity by one year adds physical growth to the crops, reduces the present value of future costs, increases present value of future revenues.
3. Updating the harvest schedule to match the current ten-year operational plan added 3.3% to the valuation and a reduction to the valuation area by 0.6% due to other stand area changes (i.e. excluding harvesting) and re-mapping.
4. Updating the crop types to reflect current silviculture practice, including recent inventory, and rebuilding the radiata generic yield tables based on inventory plot results increased the valuation by 21.9%. About a third of this gain was due to incorporating new grades (and destinations) and re-modelling each forest to its optimal cutting strategy. Further the final values were adjusted as per the recommendations made from peer review by Woodlands Pacific Consulting Limited.
5. Marginal changes to Annual costs, Tending costs, Harvest costs and Cartage costs reduced the valuation by 2%.
6. The value of this particular forest is considered to be highly sensitive to changes in log prices, because of its moderate distances to established markets and relative maturity. Log prices represent the projection of future prices. Recent 12-month (June 2019-May 2020) log prices are applied to the 2020 harvest, and 3-year average prices are applied from 2024. Interpolated prices are applied for years 2021-2023 modelling a drift from current prices back towards the 3-year average prices over this period. Based on market evidence analysed, the log prices assumed in this valuation represent a fair and reasonable view of long-term prices by log grade as demonstrated by log prices implied in recent sales of mature forests, including stumpage sales. The net impact is a decrease in the valuation of 12%.
7. A post-tax discount rate of 6.0% has been used in discounting the present value of expected post-tax cash flows (2019: post-tax discount rate of 6.0% was used).
8. The increases in value due to advancing the forest maturity one year and revising the harvest schedule were more than offset by the application of more moderate yield tables, an increase in harvesting costs and a reduction in log prices. This resulted in a net 20.2% reduction in the Howard joint venture crop valuation.
9. Council also owns a small stand of timber through its share of the Nelson Regional Sewerage Business Unit joint venture. The movement in the value of this stand is included.

**Risk management**

Council is exposed to financial risks arising from changes in timber prices. Council is a long-term forestry investor and does not expect timber prices to decline significantly in the foreseeable future, therefore, has not taken any measures to manage the risks of a decline in timber prices. Council reviews its outlook for timber prices regularly in considering the need for active financial risk management.



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Gains or losses arising on initial recognition of forestry assets at fair value, less estimated point-of-sale costs, from a change in fair value less estimated point-of-sale costs, are recognised in the surplus or deficit.

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30 JUNE 2019	30 JUNE 2020
\$'000 FORESTRY ASSETS	\$'000
41,220	44,101
<b>Balance at 1 July</b>	
<b>Gains (loss) attributable to:</b>	
(5,000)	(5,300)
1. Decrease due to harvest	
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3,300	(5,300)
6. Log price assumption	
1,600	-
7. Discount rate	
(43)	(46)
8. Movement in cost to sell	
64	(47)
9. Howard forest JV block	
(140)	(50)
10. Other	
<b>2,881</b>	<b>2,957</b>
<b>Net gain/ (loss)</b>	
<b>44,101</b>	<b>47,058</b>
<b>Balance at 30 June</b>	

**Nature of Forestry Assets**

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**Annual Revaluation**

Registered valuers PF Olsen Ltd have valued forestry assets as at 30 June 2020. PF Olsen also provides Council with forest management services. To preserve independence, the valuation presented by PF Olsen Ltd was peer reviewed by Woodlands Pacific Consulting Limited. The recommendations of the peer review were taken into account when determining the fair value of forestry assets.

The forests have been valued on a going concern basis and this only includes the value of the existing crops on a single; and rotation basis. All costs and revenues are expressed in current dollar terms.

**Explanation of significant assumptions and movements**

1. Removal of areas harvested since 30 June 2019 reduced the tree crop value by \$5.3m (12%). Total harvested volume during the year ended 30 June 2020 was 120,057 tonnes (2019: 68,408 tonnes harvested).

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3. Updating the harvest schedule to match the current ten-year operational plan added 3.3% to the valuation and a reduction to the valuation area by 0.6% due to other stand area changes (i.e. excluding harvesting) and remapping.

4. Updating the crop types to reflect current silviculture practice, including recent inventory, and rebuilding the radiata generic yield tables based on inventory plot results increased the valuation by 21.9%.

About a third of this gain was due to incorporating new grades (and destinations) and re-modelling each forest to its optimal cutting strategy. Further the Final values were adjusted as per the recommendations made from peer review by Woodlands Pacific Consulting Limited

5. Marginal changes to Annual costs, Tending costs, Harvest costs and Cartage costs reduced the valuation by 2%

6. The value of this particular forest is considered to be highly sensitive to changes in log prices, because of its moderate distances to established markets and relative maturity. Log prices represent the projection of future prices.

Recent 12-month (June 2019-May 2020) log prices are applied to the 2020 harvest, and 3-year average prices are applied from 2024. Interpolated prices are applied for years 2021-2023 modelling a drift from current prices back towards the 3-year average prices over this period.

Based on market evidence analysed, the log prices assumed in this valuation represent a fair and reasonable view of long-term prices by log grade as demonstrated by log prices implied in recent sales of mature forests, including stumpage sales.

The net impact is a decrease in the valuation of 12%.

Covid-19 impact- Export log prices were extremely volatile over the period March to May 2020 due to COVID-19 related supply and demand shocks. Export 'at wharf gate' log prices in May 2020 spiked to levels not seen in the last 3 years due to high Chinese demand following COVID-19 related supply shortages out of New Zealand, but significantly dropped in June 2020. The May spike was settled with the benefit of some additional time for the market to settle after the Covid19 lock down period.

7. A post-tax discount rate of 6.0% has been used in discounting the present value of expected post-tax cash flows (2019: post-tax discount rate of 6.0% was used).

9. The increases in value due to advancing the forest maturity one year and revising the harvest schedule were more than offset by the application of more moderate yield tables, an increase in harvesting costs and a reduction in log prices. This resulted in a net 20.2% reduction in the Howard joint venture crop valuation.

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<b>5,250</b>	<b>Balance at 30 June</b>	<b>5,350</b>

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