



**Notice is given of an Audit and Risk Committee Meeting to be held on:**

**Date:** Tuesday, 25 August 2020  
**Time:** Following the Extraordinary Council Meeting  
**Location:** Council Chambers  
Fairlie

# **AGENDA**

## **Audit and Risk Committee Meeting**

**25 August 2020**

Note: This meeting may be digitally recorded by the minute-taker.

**Audit and Risk Committee Membership:**

Bruce Mincham (Chair)  
James Leslie  
Stuart Barwood  
Anne Munro  
Graham Smith  
Emily Bradbury  
Murray Cox  
Matt Murphy

\*\*\*\*\*

**The purpose of local government:**

(1) The purpose of local government is—

- (a) to enable democratic local decision-making and action by, and on behalf of, communities; and
- (b) to meet the current and future needs of communities for good-quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost-effective for households and businesses.

(2) In this Act, good-quality, in relation to local infrastructure, local public services, and performance of regulatory functions, means infrastructure, services, and performance that are—

- (a) efficient; and
- (b) effective; and
- (c) appropriate to present and anticipated future circumstances.

(Local Government Act 2002)

**Order Of Business**

<b>1</b>	<b>Opening .....</b>	<b>5</b>
<b>2</b>	<b>Apologies .....</b>	<b>5</b>
<b>3</b>	<b>Declarations Of Interest.....</b>	<b>5</b>
<b>4</b>	<b>Visitors.....</b>	<b>5</b>
<b>5</b>	<b>Reports .....</b>	<b>6</b>
5.1	Minutes of Audit and Risk Committee Meeting - 25 February 2020 .....	6
5.2	Adoption of Annual Plan 2020/21 .....	14
5.3	Annual Report 2019/20 Timetable.....	19
5.4	Report to the Council on the Interim Audit of Mackenzie District Council for the year ended 30 June 2020 .....	26
5.5	Revised Terms of Reference .....	67
<b>6</b>	<b>Public Excluded .....</b>	<b>73</b>
6.1	Minutes of Public Excluded Audit and Risk Committee Meeting - 25 February 2020 .....	73
6.2	Risk Management Report.....	73





**1 OPENING****2 APOLOGIES****3 DECLARATIONS OF INTEREST****4 VISITORS**

Jerard Cowburn and Paul Carpenter from Marsh JLT Specialty will join the meeting at about 11.30am to give an update on insurance renewal and liability.

## **5        REPORTS**

### **5.1       MINUTES OF AUDIT AND RISK COMMITTEE MEETING - 25 FEBRUARY 2020**

**Author:**                **Arlene Goss, Governance Advisor**

**Authoriser:**

**Attachments:**        **1.       Minutes of the Meeting on 25 February, 2020**  

#### **RECOMMENDATION**

That the Minutes of the Audit and Risk Committee Meeting held on Tuesday 25 February 2020 be received and confirmed as an accurate record of the meeting.



# **Unconfirmed MINUTES**

## **Audit and Risk Committee Meeting**

**25 February 2020**

**MINUTES OF MACKENZIE DISTRICT COUNCIL  
AUDIT AND RISK COMMITTEE MEETING  
HELD AT THE COUNCIL CHAMBERS, FAIRLIE  
ON TUESDAY, 25 FEBRUARY 2020 AT 11.00AM**

**PRESENT:** Bruce Mincham (Chairperson), Cr James Leslie, Cr Stuart Barwood, Cr Anne Munro, Mayor Graham Smith, Cr Murray Cox, Cr Matt Murphy.

**IN ATTENDANCE:** Suzette van Aswegen (Chief Executive), John Mackey (Audit New Zealand), Chris Genet (Audit New Zealand), Tim Mulcock (Transition Manager), Paul Numan (General Manager Corporate Services), Adrian Hodgett (Finance Manager), Alexis Gray (Manager People and Culture), Katherine Hill (Senior Corporate Planner), Connie Giquel (Executive Assistant), Arlene Goss (Governance Advisor Temp), one member of the media.

**1 OPENING**

The Mayor welcomed John Mackey and Chris Genet from Audit New Zealand.

Chairperson Bruce Mincham thanked everyone for their attendance and opened the meeting.

**2 APOLOGIES**

Apologies were received from Cr Emily Bradbury and Cr James Leslie.

**3 DECLARATIONS OF INTEREST**

There were no declarations of interest.

**4 VISITORS**

John Mackey and Chris Genet from Audit New Zealand attended the meeting.

**5 REPORTS**

**5.1 AUDIT AND RISK COMMITTEE - TERMS OF REFERENCE**

Mr Mincham raised the subject of the chief executives performance review, which was included in the Terms of Reference for Audit and Risk. He said it was not normal practice to have this within the responsibility of the Audit and Risk Committee.

He suggested that this become either a sub-committee of Council or a sub-committee of Audit and Risk. He was concerned that he would not have the same amount of contact with the chief executive as other members of the committee and therefore not be able to discharge this duty well.

Discussion took place on this matter. John Mackey from Audit NZ was asked for his view. He said the usual practice was to form a small subcommittee which made recommendations to Council.

## Audit and Risk Committee Meeting Minutes

25 February 2020

The chairperson suggested that the Audit and Risk Committee forms a subcommittee with membership consisting of the Mayor, Deputy Mayor, and Chair of the Audit and Risk Committee. There was general agreement on this and resolutions were passed accordingly.

**COMMITTEE RESOLUTION AUD/2020/44**

Moved: Cr Stuart Barwood

Seconded: Cr Anne Munro

1. That the report be received.

**CARRIED****2. COMMITTEE RESOLUTION AUD/2020/45**

Moved: Mayor Graham Smith

Seconded: Cr Anne Munro

3. That a sub-committee be formed to review the Chief Executive's performance with membership consisting of the Mayor, Deputy Mayor and Chairperson of the Audit and Risk Committee.

**CARRIED****4. COMMITTEE RESOLUTION AUD/2020/46**

Moved: Mr Bruce Mincham

Seconded: Cr Matt Murphy

5. That the Audit and Risk Committee recommends to Council that it reconsiders whether the chief executive's overview sits with the Audit and Risk Committee or with Council.
6. That the Audit and Risk Committee be informed of Council's decision.

**CARRIED****5.2 REPORT TO COUNCIL ON THE AUDIT OF THE MACKENZIE DISTRICT COUNCIL AS AT 30 JUNE 2019****COMMITTEE RESOLUTION AUD/2020/47**

Moved: Mr Bruce Mincham

Seconded: Cr Matt Murphy

1. That the report be received.

**CARRIED**

John Mackey from Audit New Zealand spoke to this report.

Council and its asset base was continuing to grow. Processes that were appropriate for a smaller council may no longer be appropriate. Rapid growth was creating challenges.

## Audit and Risk Committee Meeting Minutes

25 February 2020

He highlighted the Downlands Water Supply. This was a joint committee of the Mackenzie, Timaru and Waimate councils, but it did not have the legal clarity it would be best to have.

An issue came up last year when Waimate District Council wanted to adopt an accounting standard. It was difficult to determine the form of control that various councils had over the committee. Mr Mackey recommended that Council works out what it wants to achieve from the joint committee, and then ensure the formal agreement with Timaru District and Waimate District meets the council's intentions. The Mayor said the Downlands scheme was planning a major upgrade so it was the right time to review this.

The chief executive said a staff member needed to go with the councillor to Downlands Water Supply Committee meetings to pick up on any technical issues.

Regarding the former Pukaki Airport Board, Mr Mackey said GST and accounting had been an issue. He recommended that Council carry over funds so it did not run out of money for the airport.

He noted the importance of declaring interests and managing perceived conflicts of interest.

Last year's annual report preparation didn't go as well as Audit NZ hoped. Changes had been made and discussions held on improving the processes. He noted the importance of information being available to Audit NZ when needed to make the process go smoothly.

The chief executive noted that Audit NZ had scheduled the Mackenzie District Council later in the year and this caused time problems when Council wanted to challenge audit findings. A request to schedule the council earlier in the year had been declined. Mr Mackay spoke about the competing needs of public companies and organisations at certain times of the year. He suggested waiting to see what happens with the 2020 Annual Report. He expects this year's audit to go a lot smoother.

The Mayor spoke about the need for communication between staff and Audit NZ throughout the entire year.

The Audit and Risk Committee would like regular updates on progress with the annual report.

Additional fee recovery has been submitted to management to cover the cost of additional Audit NZ staff time required at the last audit.

Regarding the audit of complaints and response times, the systems in place were inadequate for Audit NZ to get all the information they needed. The chief executive said Council now had a complaints process and a customer service process was currently being trialled.

John Mackey spoke about his professional move away from auditing Mackenzie District Council and thanked management and Council for its support. He would be handing this to Chris Genet, who spoke about the risks in coming years and new accounting standards that are coming in. He will present an audit plan to the next meeting of the committee.

John Mackey was thanked for his work and wished well for the future.

### 5.3 HEALTH AND SAFETY REPORT

Alexis Gray answered questions on her report.

Responsibility for the induction of new staff is shared across several staff. Everyone who joins the council will have the same understanding of expectations.

## Audit and Risk Committee Meeting Minutes

25 February 2020

She said wellbeing was a focus. The use of EAP services by staff has increased. There was a real concern around stretching capacity and this was a wellbeing issue. This was something the executive team as a group would need to look at.

It was difficult to fill some key roles due to a lack of candidates. A lot of councils had the same issues.

The chairman asked if she perceived any risks around staffing. Alexis Gray noted the risks were recognised on the risk register.

**COMMITTEE RESOLUTION AUD/2020/48**

Moved: Cr Anne Munro

Seconded: Cr Stuart Barwood

That the information be noted.

**CARRIED****5.4 RISK MANAGEMENT REPORT**

This report updated the Audit and Risk Committee on risk management activities at Mackenzie District Council for the period from November 2019 to January 2020, to enable the committee to fulfil their governance and oversight role in relation to effective risk management.

The members passed a resolution to discuss the details of the risk register in the public excluded session.

Tim Mulcock then gave a presentation to the committee using the power point presentation attached to the agenda on page 92. He answered questions from the members on balancing risk with aspects of governance activity, and asked them to think about what governance risks needed to be added to the risk register. Cr Munro commented on the tremendous amount of progress being made in this area and thanked staff for their work.

**COMMITTEE RESOLUTION AUD/2020/49**

Moved: Cr Stuart Barwood

Seconded: Cr Matt Murphy

1. That the report be received.

**CARRIED****COMMITTEE RESOLUTION AUD/2020/50**

Moved: Cr Anne Munro

Seconded: Cr Stuart Barwood

2. That the Risk Register attached to the report at Attachment 2 be discussed in the public excluded part of the meeting.

**CARRIED**

*The committee adjourned for lunch at 12.11pm and reconvened at 12.46pm.*

## 6 PUBLIC EXCLUDED

### RESOLUTION TO EXCLUDE THE PUBLIC

#### COMMITTEE RESOLUTION AUD/2020/51

Moved: Cr Anne Munro

Seconded: Cr Murray Cox

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

The general subject matter of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter, and the specific grounds under section 48 of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution are as follows:

General subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Ground(s) under section 48 for the passing of this resolution
<b>6.1 - Desktop Computer Audit Report</b>	s7(2)(b)(ii) - the withholding of the information is necessary to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information	s48(1)(a)(i) - the public conduct of the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding would exist under section 6 or section 7
<b>6.2 - Property File Report</b>	s7(2)(c)(i) - the withholding of the information is necessary to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to prejudice the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied  s7(2)(g) - the withholding of the information is necessary to maintain legal professional privilege	s48(1)(a)(i) - the public conduct of the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding would exist under section 6 or section 7
<b>6.3 - Mid-yearly Organisational Performance Update</b>	s6(b) - the making available of the information would be likely	s48(1)(a)(i) - the public conduct of the relevant part of the proceedings of the meeting



## Audit and Risk Committee Meeting Minutes

25 February 2020

	to endanger the safety of any person s7(2)(a) - the withholding of the information is necessary to protect the privacy of natural persons, including that of deceased natural persons	would be likely to result in the disclosure of information for which good reason for withholding would exist under section 6 or section 7
CARRIED		

**COMMITTEE RESOLUTION AUD/2020/52**


Moved: Cr Anne Munro

Seconded: Cr Stuart Barwood

That the Audit and Risk Committee moves out of closed meeting into open meeting.

**CARRIED****The Meeting closed at 2.48pm.****The minutes of this meeting were confirmed at the Audit and Risk Committee Meeting held on 26 May 2020.**.....  
**CHAIRPERSON**

## 5.2 ADOPTION OF ANNUAL PLAN 2020/21

**Author:** Katherine Hill, Senior Corporate Planner  
**Authoriser:** Paul Numan, General Manager Corporate Services  
**Attachments:** 1. Annual Plan 2020-21 (under separate cover) 

### STAFF RECOMMENDATIONS

That the information be noted.

### BACKGROUND

The purpose of this report is to inform the Audit and Risk Committee that Council adopted the Annual Plan 2020/21 on 30 June 2020.

Once every three years, Council is required to adopt a Long Term Plan and in the intervening years an Annual Plan. These plans set out the service levels and budgets for the coming year and provide the basis on which Council's rates are set.

The Annual Plan is required to be adopted by Council on or before 30 June each year. Amendments to the Local Government Act 2002 (LGA) in 2014 have streamlined the process for developing and adopting Annual Plans. Essentially the Act now provides that where there are no significant or material differences from the content of Year 3 of the Long Term Plan 2018-2028 (LTP), the Council is not required to consult during the development of the Annual Plan.

The purpose of an Annual Plan is to:

- a) Contain the proposed annual budget and funding impact statement for the year to which the annual plan relates; and
- b) Identify any variation from the financial statements and funding impact statement included in the local authority's long term plan in respect of the year; and
- c) Provided integrated decision making and co-ordination of the resources of the local authority; and
- d) Contribute to the accountability of the local authority to the community.

*(section 95 LGA)*

The content of an annual plan is prescribed by Part 2 of Schedule 10 LGA.

Council staff reviewed programmes of work and budgets included in Year 3 of the LTP, and confirmed or made amendments as appropriate. For example some budgets were adjusted to reflect prior year actuals. During this process, the financial impacts of COVID-19 on our communities and local economy began to be known and further adjustments were made including realignment of tourism promotion and economic development support, and a reduction in anticipated building activity for 2020/21.

The Council had a number of workshops and meetings on the process, considering the budgets and work programmes for the 2020/21 year. Given the economic climate following the impact of COVID-19, Council worked hard to reduce rates increases while maintaining existing levels of service and undertaking community and economic recovery actions, including acceleration of shovel ready projects. This resulted in a rates rise of 4.48%, lower than the forecast rates increase for Year 3 of

8%. This reduction to forecast rates increases in 2020/21 was achieved through application of forestry income, internal adjustments to overhead costs, and increased use of external debt to fund shovel ready capital works.

At its meeting of 23 June 2020, the Council approved a number of matters for inclusion in the Annual Plan, resolving that those variances from Year 3 of the LTP were not significant or material. Council subsequently confirmed, that the Annual Plan 2020/21 would not be consulted on. The Council did seek to undertake engagement with the community through a range of informing, as outlined under 'communication' in this report.

The Annual Plan was adopted by Council at their meeting of 30 June 2020, and made publicly available following the meeting. The adopted Annual Plan 2020/21 is adopted for the Committee.

## IMPACTS OF DECISION

### Revenue and Financing Policy

The Revenue and Financing Policy outlines the choices that Council has made to determine the appropriate funding of operational and capital expenditure from the sources of funding listed in the Local Government Act 2002. With regard to operational expenditure, the following table outlines breaches of the funding sources and the extent by which these sources have been applied.

	Governance General	Range in R&F Policy	Corporate Services	Range in R&F Policy	District Planning	Range in R&F Policy
<b>Total Operating Expenditure</b>	\$548,922		\$5,297,332		\$1,179,000	
<b>Funded by:</b>						
General Rates	\$0	0% 60-80%	\$3,585,567	68% 80-100%	\$457,500	39% 60-80%
User Charges	\$37,485	7% 20-40%	\$366,919	7% 0-20%	\$0	0% 20-40%
Other Income	\$0	0% 0%	\$708,153	13% 0%	\$0	0% 0%
Investments	\$511,437	93% 20-40%	\$636,693	12% 0%	\$0	0% 0%
Reserves	\$0	0% 0%	\$0	0% 0%	\$721,500	61% 0%

**From the Finance and Revenue Policy:** Council budgets will normally be set within these ranges. As these ranges are expressed as a percentage of the cost of the activity, they may change over time because of changes in expenditure rather than changes in revenue. If budgets were marginally outside these ranges, it is unlikely that Council will consider that matter to have a high degree of significance and therefore warrant a change the Revenue and Financing Policy.

As identified above, the following operational funding sources are in breach of the Revenue and Financing Policy limits requiring resolution:

1. General Rate funding of Governance General – 0% (60-80%)
2. Investments funding of Governance General – 93% (20-40%)
3. General Rates funding of Corporate Services – 68% (80-100%)
4. Investments funding of Corporate Services – 12% (0%)
5. Other income funding of Corporate Services – 13% (0%)
6. General Rates funding of District Planning – 39% (60-80%)

7. User charges funding of District Planning – 0% (20-40%)
8. Reserves funding of District Planning – 61% (0%)

In addition, the following breaches were resolved as part of the adoption of fees and charges for 2020/21 at the Council meeting of 23 June 2020:

1. User charges funding of Governance General – 7% (20-40%)
2. User charges of Twizel Swimming Pool – 14% (20-40%)

The breach of the Revenue and Financing Policy is District Planning relates to the spreading of District Plan Review costs over the 10 year life of the Plan, ensuring that costs are not met by the ratepayers in the year of review. As the District Plan Review is an operational programme of work, external debt funding cannot be used, therefore reserves are proposed. This is consistent with prior decisions by Council to fund Plan Changes to the District Plan through reserves, including the intergenerational funding of Plan Change 13. In addition, the funding through user charges relates to private plan changes however these cannot be planned for as a forecasted source of income to this activity.

Breaches in Governance General and Corporate Services relate to Council's intention to lower the forecast rates rises from 8% to 4.48% in 2020/21 while maintaining existing operations and level of service. This has been achieved through the application of overhead allocation through cost recoverable activities and the use of forestry timber income (investment income). The use of investment income (forestry revenue) to offset general rates is considered an appropriate use as it allows the district as a whole to benefit from a productive district asset. Historically, general rates have contributed significantly to supporting forestry activities.

The above matters are consistent with the principles of the Revenue and Financing Policy including:

- Subsidies, grants and other income options are fully explored prior to rates being used; and
- Each generation of ratepayers should pay for the services they receive and borrowing can assist to achieve this outcome.

Council resolved on 30 June 2020 these breaches of limits, signalling the intent to review the Revenue and Finance Policy during the financial year. A complete review of the Revenue and Financing Policy is intended for later in 2020, in preparation for the LTP 2021-31.

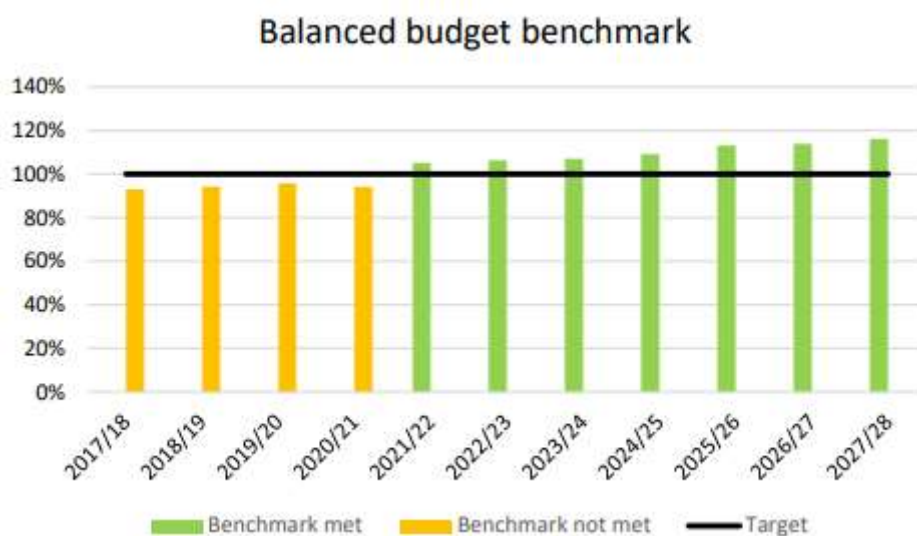
### **Liability Management Policy and Investment Policy**

These policies place restrictions on the use of borrowing as a funding source. The LTP forecast that external debt in Year 3 would be \$5.873m. To date Council has no external debt, although the Annual Plan confirms the intention to increase debt to \$10.5m. This will be utilised for the funding of a number of capital works including planned water supply upgrades and local share of capital roading projects. The increase relates to Council's intention to progress shovel ready projects as part of its COVID-19 Economic and Community Recovery Action Plan. The intended borrowing is in accordance with the Liability Management and Investment Policies.

### **Balanced Budget Requirement**

Section 100(1) of the Local Government Act 2002 requires a local authority to *'ensure that each year's projected operating revenues are set at a level sufficient to meet that year's projected operating expenses'*. Section 100(2) provides that, *'despite subsection (1), a local authority may set projected operating revenues at a different level from that required by the subsection if the local authority resolves that it is financially prudent to do so'*. In the LTP, Council projected that it would

run an unbalanced budget for the first three years of the LTP (up to and including 2020/21), before returning to a balanced budget from Year 4 (2021/22).



*NB: balanced budget benchmark is met if planned revenue (excluding vested assets and financial contributions) equals or is greater than its planned operating expenses.*

The Annual Plan 2020/21 confirmed an operating deficit with revenue, excluding vested assets and financial contributions, of \$19.769m compared with expenditure totalling \$21.101m. In light of the longer term projected surpluses from Year 4 onwards, Council considered it financially prudent to set a budget in the Annual Plan 2020/21 which does not meet the balanced budget benchmark.

#### **Other benchmarks and financial requirements**

The Annual Plan, and included forecast financials comply with all other relevant financial benchmarks and the Financial Strategy.

External debt and infrastructure capital expenditure have increased from Year 3 of LTP due to the bringing forward of 'shovel ready' projects to promote COVID-19 recovery in the District.

Although external debt is forecast to exceed levels anticipated for Year 3 of the LTP, projected debt for 2020/21 remains within the financial limits set by Council. Finance costs are within these limits which has been helped by the current climate of low interest rates. These matters are outlined in the table below:

	FINANCIAL STRATEGY LIMITS (YEAR 3)	ANNUAL PLAN 2020/21
DEBT (not >2x rates income)	\$21.658m	<b>\$10.500m</b>
FINANCING COSTS (not >10% of total rate income)	\$1.022m	<b>\$0.151m</b>

#### **Alignment with Council Mission**

Council's mission is to '*foster our communities*'. This is accompanied by a core set of values to underpin decision making, the following of which are relevant to this particular proposal: *Be Fair to Everyone; Peace and Serenity Matters; Not Afraid to be Different; Do Things with Respect and Trust; and Leave Things Better for the Future.*

In addition, the decisions contained in the Annual Plan with regard to the reduced rates rises, funding applications, and capital works programmes are consistent with Council's intent in progressing its COVID-19 Economic & Community Recovery Action Plan.

**CONCLUSION**

The Committee is asked to note the included information and the adoption of the Annual Plan 2020/21, adopted by Council on 30 June 2020.

### **5.3 ANNUAL REPORT 2019/20 TIMETABLE**

**Author:** Adrian Hodgett, Finance Manager  
**Authoriser:** Paul Numan, General Manager Corporate Services  
**Attachments:** Nil

#### **STAFF RECOMMENDATIONS**

That the information be noted.

#### **BACKGROUND**

##### **Introduction**

The Annual Report is a statutory requirement of Council under sections 98 and 99, and Schedule 10 Part 3 of the Local Government Act 2002. The purpose of the Annual Report is to compare the actual activities and performance of Council over a year (1 July to 30 June) against the intended activities and levels of performance as set out in respect of the year in the Ten Year Plan or Annual Plan.

The Annual Report also provides accountability to the community of Council's decisions made throughout that year. The accountability enables stakeholders (residents and ratepayers, other local authorities, business community groups, Government regulatory bodies etc.) to assess our performance and make decisions regarding Council and how it conducts its business.

The Local Government Act 2002, section 98 (3) requires that each annual report is adopted, by resolution within four months after the end of the financial year in which it relates. For 2020, the deadline has been extended to within 6 months due to the Covid-19 global pandemic.

##### **Objective**

The Annual Report reports on Council's financial and non-financial performance for the financial year (1 July to 30 June). The purpose of this project is to complete the Annual Report:

- Within the specified deadline,
- With a clear audit opinion, and
- In compliance with legislation, including Generally Accepted Accounting Practice (GAAP) and Financial Reporting Standards (IPSAS)
- Within the budget agreed with audit.

#### **ROLES AND RESPONSIBILITIES**

##### **Council**

The primary responsibility of the Chief Executive/Council is to ensure that the financial reporting requirements as set out by legislation are met and for establishing and maintaining a system of internal controls that is designed to provide reasonable assurance as to the integrity and reliability of the financial reporting. Hence, the Statement of Compliance and Responsibility and Statement of

Financial Position are signed-off by the Mayor and Chief Executive; and Authority for adoption of Annual Report.

**Executive Sponsor – General Manager Corporate Services**

The primary responsibility of the Executive Team is to ensure that the financial reporting requirements as set out by legislation are met. Also:

- Identify and advise on Council issues that may impact on and/or require disclosure in the Annual Report.
- Review of and approval authority on the Annual Report content and disclosures.
- Provide guidance or feedback on any issues that need to be addressed at a high level.
- Responsible for the non-financial and financial information including the financial statements and the judgements used in them; and
- Responsible for the establishment and maintenance of a system of internal controls that is designed to provide reasonable assurance as to the integrity and reliability of the financial reporting.

**Chief Executive**

Is responsible for:

- Reports annually to Council on Council's performance by means of the external financial report.
- Ultimate approval and decision-making authority.
- Key provider of:
- Authorisation of the Audit Arrangements Letter and Representation Letter.
- The Mayor and Chief Executive Report
- Summary overview assessment of the achievement of Council Ends policies and a complementary commentary on the extent to which, if at all, Chief Executive Limitation policies were contravened.
- The Chief Executive delegates the responsibility for the production of the Annual Report to General Manager Corporate Services.

**Finance Manager – Adrian Hodgett**

Is responsible for the preparation and coordination of the Council's financial statements, including the following:

- Accountable for the financial aspects of the project.
- Preparing the financial statements within required timeframes.
- Ensuring that the financial statements comply with applicable legislation and financial reporting standards.
- Ensuring all amounts in financial statements are supported with appropriate evidence for audit purposes.
- Significant variances between actual balances, budgeted and previous year actual amounts are explained.



- The financial statements are prepared in accordance with the accounting policies adopted by the entity.
- Approval authority on processes and material produced throughout the project.
- Provides guidance where risks have been identified and need resolution.
- Key provider of information and technical expertise with regards to
- Review of group of Activities section
- Legislative compliance and risk
- Investment properties
- Review of financial variance explanations
- Commitments and contingencies
- Provide updates to Chief Executive at fortnightly meeting

**Financial Accountant – Juanita Brown (temporarily)**

Is responsible for:

- Project plan and timetable preparation.
- Monitors progress with the aim of ensuring it is completed on time and to agreed standards.
- Co-ordinates and supports staff with responsibilities or roles in the project.
- Provides updates to staff, the project team and management as appropriate.
- Identifies risks and notifies relevant staff of possible resolutions.
- Ensures audit and legislative requirements are met.
- Year-end closure (Jo Hurst)
- Year accruals preparation (Adrian Hodgett, Jo Hurst, Juanita Brown)
- Compilation of audit files relating to Section Four: *Financial Statements*.
- Accounting policies review and update.
- Notes to Accounts.
- Preparation of analytical review (with Adrian Hodgett)
- Section: *General Overview* financial information and graphs.

**Senior Corporate Planner – Katherine Hill**

Is responsible for:

- Co-ordinate the annual consent and community surveys.
- Co-ordinate the collection of and incorporate the non-financial information within the document including performance monitoring information.
- Oversight of the collation of the annual report document and annual report summary document.

- Monitors progress of non-financial tasks and the production of the annual report and annual report summary documents with the aim of ensuring it is completed on time and to agreed standards.
- Provide legislated service of annual report and annual report summary to statutory timeframes.

### Budget Managers

Are responsible for:

- Provide updates on those areas of the project they are responsible for.
- Provide feedback where changes in activities may impact on the project delivery.
- Provision of performance monitoring information in an auditable form.
- Maintain supporting documentation for performance monitoring results in audit files.
- Provide the necessary fixed asset component information for capitalisation.
- Provide breakdown of capex into Additional Demand. Improved levels of Service and/or Replacement classification.
- Provide variance explanations.
- Make themselves available to auditors to answer queries in a respectful manner.

### MEETINGS

Meetings have been identified as a requirement to ensure key project milestones are met in accordance with the timetable framework. The key milestones identified are as follows:

#### Key Milestones

Date required	Action or Item	Person Responsible	Date completed
2 June 2020	Interim Audit begins	Audit NZ/ Paul/ Adrian	12 June 2020
22 June 2020	Email to Albury Water Supply advising reporting deadline	Juanita	Done
TBC	June Management reports circulated to Managers	Jo	Done
1 July 2020	Bank confirmation / Audit Certificate letters	Adrian	Done
1 July 2020	Request Lawyer Confirmation letters	Leaine	Done
2 July 2020	Key projects and highlights sections circulated to managers	Managers/Katherine	Done
10 Jul 2020	Draft Interim Audit Report Issued to MDC	Audit NZ	Received 29 Jul
15 July 2020	30 June 2020 invoices to Julie for payment on 20th July 2020	Julie / All Managers	Done
24 July 2020	Survey report finalised	Katherine	In progress
27 July 2020	Schedule of Vested assets	Bernie	In progress
30 July 2020	PPE valuation report Audit NZ	Adrian	Received 10 Aug
31 July 2020	Invoices or estimates for work completed up to 30th June 2020 for accruals to Julie / Adrian.	All Managers	Done
31 July 2020	All non-financial performance measures and reporting provided to Katherine	All Managers	In progress

Date required	Action or Item	Person Responsible	Date completed
7 Aug 2020	Narrative and Statement of Service Performance KPI's circulated to Managers	Katherine	In progress
10 Aug 2020	Albury Water Supply, Downlands and Twizel info Centre financials completed	Adrian	In progress
17 Aug 2020	Complete accruals	Adrian	In progress
19 Aug 2020	Narrative and Statement of Service Performance KPI's to be completed by Managers/ Team leaders	All Managers/ Katherine	
24 Aug 2020	Narrative and Statement of Service Performance KPI's typed up and recirculated to Managers for checking.	Managers/Katherine	
24 Aug 2020	Complete all reconciliations excluding fixed assets	Finance team	
24 Aug 2020	Infrastructure assets Three Waters Fair Value Assessment to determine whether revaluation is required Determine WIP and carry-forwards Journals	Jo in consultation with Bernie/Geoff	
24 Aug 2020	Roothing Journals	Jo in consultation with Bernie/Scott	
27 Aug 2020	Allocation of overheads if applicable	Adrian	
28 Aug 2020	Narrative and Statement of Service corrections to be send back to Katherine.	Managers / Katherine	
28 Aug 2020	Formatting of Annual Report, narrations completed	Katherine	
Last week in Aug 2020	Undertake final variance analysis & update narrative Verify with Managers	Adrian/Katherine with review by Managers	
7 Sept 2020	Special funds and reserves transfers	Adrian	
7 Sept 2020	Land and buildings revaluation to be processed	Jo	
7 Sept 2020	Fixed Assets: Final capture in FAR Review misallocations within GL Run depreciation to year end Reconcile GL to FAR Note preparation	Jo	
15 Sept 2020	June financial results (includes COS's, FIS' and core financial statements) and Statements of Service Performance ready for Council Workshop	Adrian	
21 Sept 2020	Explanation for all significant variances on FIS's and Capital Expenditure complete	All Managers / Adrian	
25 Sept 2020	Draft Annual Report out for vetting	Katherine	
25 Sept 2020	Completion of financial statement work-papers - balance sheet and P&L including Note Disclosures	Adrian/Juanita	
	• Rates Reconciliation and Adjustments, Rates write-offs		
	• Grant funding		
	• Bad debt provisions		
	• Employee provisions - Retirement, gratuities		
	• Related party		

Date required	Action or Item	Person Responsible	Date completed
	<ul style="list-style-type: none"> <li>Investment – interest accrual</li> </ul>		
	<ul style="list-style-type: none"> <li>Assets –Infrastructure</li> </ul>		
	<ul style="list-style-type: none"> <li>Depreciation</li> </ul>		
	<ul style="list-style-type: none"> <li>Land and buildings revaluations</li> </ul>		
	<ul style="list-style-type: none"> <li>Financial Instruments</li> </ul>		
	<ul style="list-style-type: none"> <li>Tax</li> </ul>		
	<ul style="list-style-type: none"> <li>Cashflow</li> </ul>		
	<ul style="list-style-type: none"> <li>Analytical review</li> </ul>		
29 Sept 2020	Annual Report Commentary draft vetted	CEO/Paul/Adrian	
29 Sept to 23 Oct 2020	<b>Final Audit begins</b>	Audit NZ/Paul/Adrian	
30 Sept 2020	Mayor and CE introduction finalised	Katherine	
30 Sept 2020	Draft financials and Annual report to Audit	Katherine / Adrian	
19 Oct 2020	Final Financial Statements completed including audit adjustments	Adrian	
21 Oct 2020	Final documents and numbers in Annual Report	Adrian	
21 Oct 2020	Final financial statements available to audit	Adrian	
21 Oct 2020	Annual Report completed and ready for distribution	Katherine	
23 Oct 2020	Verbal clearance given	Audit	
27 Oct 2020	Representation Letter signed for Audit	Finance Manager/ Mayor	
30 Oct 2020	Audit opinion & Final Audit Report	Audit	
30 Oct 2020	Adopt Annual Report	Council	
2 Nov 2020	Summary Annual Report to be published	Katherine	

These milestones have been identified as work streams that may require significant involvement from members of the project team, and subsequently require a good awareness of project progress in these areas. In identifying any risks through project team meetings in delivering the timetable, any contingencies can be prepared for in advance.

Milestone meetings to include:

- Mayor
- Audit and Risk Committee Representative
- Chief Executive
- General Manager Corporate Services
- General manager Operations
- Finance Manager
- Senior Corporate Planner

Meetings to be held from the week beginning 7<sup>th</sup> September 2020 to provide a regular forum to monitor progress against the agreed project timeframes and address issues raised for the upcoming week.

**CONCLUSION**

That the Audit and Risk Committee note the Annual Report timetable for 2019/20

**5.4 REPORT TO THE COUNCIL ON THE INTERIM AUDIT OF MACKENZIE DISTRICT COUNCIL FOR THE YEAR ENDED 30 JUNE 2020**

**Author:** Paul Numan, General Manager Corporate Services

**Authoriser:** Suzette van Aswegen, Chief Executive Officer

**Attachments:** 1. Report to Council on Interim Audit to 30 June 2020    
2. COVID Questionnaire  

**STAFF RECOMMENDATIONS**

1. That the report be received.
2. That the Audit and Risk Committee notes the report, findings and management responses.

**BACKGROUND**

Audit New Zealand have completed an interim audit for the year ended 30 June 2020.

The attached report sets out their findings from the interim audit.

**CONCLUSION**

As noted in the report the purpose of the interim audit was to update Audit New Zealand's understanding of Mackenzie District Council's (the District Council) control environment and systems of internal control relevant to the audit.

Audit New Zealand will use the results to determine the audit approach for their final audit.

Council has responded to the recommendations made in the interim audit and the attached report now includes the Management comments.

Council also completed an assessment of the impact of the COVID-19 impact and the questionnaire is included for information.

It is recommended that the Audit and Risk Committee notes the report, findings and management responses

SUZETTE VAN ASWEGAN

**CHIEF EXECUTIVE OFFICER**

AUDIT NEW ZEALAND  
Mana Arotake Aotearoa

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

**Mackenzie District Council**

For the year ended 30 June 2020

## Contents

Key messages .....	3
1      Recommendations .....	5
2      Assessment of internal control .....	7
3      Other matters .....	11
4      Useful publications.....	13
Appendix 1: Status of previous recommendations .....	16
Appendix 2: Procurement policy recommendations .....	23
Appendix 3: Sensitive expenditure policy recommendations .....	24
Appendix 4: Disclosures .....	25



## Key messages

We have completed our interim audit for the year ended 30 June 2020. This report sets out our findings from the interim audit.

### **Purpose and scope of our interim audit**

The purpose of our interim audit was to update our understanding of Mackenzie District Council's (the District Council) control environment and systems of internal control relevant to the audit. We have documented and tested controls within the District Council's key financial and non-financial systems. We use the results to determine the audit approach for our final audit.

The District Council has made, and is in the process of, implementing improvements to internal control systems during the year. This includes adopting new or revised policies, implementing electronic filing and documentation, and planning to improve service performance reporting. We continue to support the District Council's initiatives in this area.

We have made three new recommendations to further improve the District Council's control environment, and systems of internal control. These are outlined in section 1.1 below.

The status of our previous recommendations are also detailed in Appendix 1. We will follow up on progress, and report against the matters still outstanding following completion of our final audit.

### **COVID-19 Pandemic**

On 11 March 2020, the World Health Organisation declared the outbreak of coronavirus (COVID-19) a pandemic. This will have potentially significant effects on the Council's operations, financial, and non-financial performance. It will also result in additional reporting risks.

It is important that the Council considers the impact on the individual aspects of its operations and the information included in the annual report. We have discussed this matter further in section 3.1 of this report.

### **Proposed changes to statutory timeframes**

With the unprecedented challenges that COVID-19 has created, we are aware that meeting statutory annual reporting deadlines, while maintaining core services, may be a challenge for local government. Equally audits are expected to take between 25% to 40% longer resulting from the pandemic. As a result the Government is proposing legislation to extend the statutory reporting time frames for a range of public sector organisations by up to two months. The proposed changes depend on the legislation passing before the House rises for the 2020 election. For local government, this likely means an extension towards the end of the year. This proposal is designed to benefit councils and auditors alike by relieving pressure on the system, to promote high quality preparation of annual reports, and protect audit quality.

We are aware that receiving clarification of the final statutory reporting date is important as you prepare both your annual report and 2021 Long-Term Plan. We will keep you informed of any changes to the Omnibus Bill process, including extension dates when the Bill is drafted.

**Thank you**

We would like to thank the staff involved during the visit for being well prepared and available during the interim audit. This enabled us to make good progress with the audit.

Should you require clarification on any of the matters raised in this letter please contact myself or Anna Herlender (Audit Manager).

Yours sincerely

Chris Genet  
Appointed Auditor  
28 July 2020

DRAFT

## 1 Recommendations



Our recommendations for improvement and their priority are based on our assessment of how far 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 recommendations.

Explanation	Priority
<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.	Urgent
<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.	Necessary
<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.	Beneficial

### 1.1 New recommendations

The following table summarises our recommendations and their priority.

Recommendation	Reference	Priority
<b>Procurement policy</b> Update the procurement policy to incorporate further areas of good practice.	2.1.1	Beneficial
<b>Service performance reporting</b> Implement quarterly service performance reporting to the Council.	2.2.1	Necessary
<b>Twizel information centre bank reconciliations</b> Evidence review of Twizel information centre bank reconciliations.	2.2.2	Necessary

### 1.2 Status of previous recommendations

Below is a summary of the action taken against previous recommendations.

Some matters can only be addressed at year end. These matters will be followed up during our final audit visit.

Appendix 1 sets out the status of previous year's recommendations in detail.

Priority	Priority			
	Urgent	Necessary	Beneficial	Total
Open recommendations	3	6	10	19
Implemented or closed recommendations	0	2	5	7
<b>Total</b>	<b>3</b>	<b>8</b>	<b>15</b>	<b>26</b>

## 2 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.

### 2.1 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 those charged with governance, 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.

From our work completed to date no matters have come to our attention that we consider would affect the culture of honesty and ethical behaviour with the Council. The elements of the control environment provide an appropriate foundation for other components of internal control.

Our follow up of previous year's recommendations is included in Appendix 1. The District Council's focus on continuous improvement is reflected by the good progress that has been made in implementing a number of outstanding recommendations.

Examples of these improvements include, but are not limited to:

- adopting new or updated policies, which cover fraud, conflicts of Interest, procurement, sensitive expenditure, fixed assets, investment, liability management, and risk management; and
- determining planned improvements to the District Council's service performance reporting for 2020/21. Further detail on this matter is outlined in section 2.2.1 below.

We support the District Council's focus on continuous improvement, and encourage the District Council to continue implementing the recommendations included in Appendix 1. We make further recommendations for improvement below.

#### **2.1.1 Procurement policy**

##### **Recommendation**

Update the procurement policy to incorporate further areas of good practice.

##### **Finding**

We completed a high level review of the Council's draft procurement policy against good practice guidelines for the public sector. Our review concluded that the policy is an improvement on the previous methodology and processes. It provides a better basis for the Council to monitor contractor performance and provides a consistent approach to managing the procurement process across all procurement at Council. We have also identified areas where the proposed policy could be further enhanced. These recommendations are detailed in Appendix 2 of this report.

##### **Management comment**

*Agreed. Policy has been updated to reflect the suggested changes and will be presented to Council at their meeting on August 25.*

#### **2.2 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 covered the following systems of internal control during our interim audit:

- revenue/accounts receivable, including rates and NZTA subsidies;
- expenditure/accounts payable;
- payroll;
- cash receipting, and bank reconciliation;
- treasury management systems, including investment and debt management;
- general financial systems, including journals; and

- property, plant and equipment assets including infrastructure, operational assets and vested assets.

During our visit we also updated our understanding of the performance measures reported against by Council and progress in the financial year to date in achieving set targets.

Overall, we found the District Council has design-effective controls. Where we tested controls, we found that controls were operating throughout the period. This means that the controls are capable collectively of preventing or detecting and correcting material misstatements.

We also observed the District Council's response to the COVID-19 pandemic, maintained continuity of the existing control environment and systems of internal controls. Systems were modified where necessary to enable controls to operate whilst Council staff were operating remotely. We did not identify any controls that ceased to operate during the lockdown period.

In performing this assessment, we identified areas where we believe internal controls can be further improved. These have been documented below and within Appendix 1 (status of previous recommendations) to this report.

#### **2.2.1 Service performance reporting**

##### **Recommendation**

Implement quarterly service performance reporting to the Council.

##### **Finding**

Currently, the District Council does not report progress against its performance measures within its Annual Plan or Long Term Plan (LTP) throughout the financial year.

We understand the District Council intend to implement quarterly reporting in the 2020/2021 financial year. It is expected the process will involve activity managers submitting their relevant measures/statistics to the Senior Corporate planner for compilation and review. The relevant General Manager will then review their respective areas before being presented to Executive team for an overall review before being presenting the results to the Council.

We expect the quarterly reporting will include reporting against all performance measures currently included in the LTP for each group of activities, and include relevant commentary or performance story to explain year to date performance.

We support the District Council's planned improvement, and will review the system for reporting once it is implemented.

**Management comment**

*Agreed. However we will investigate what is required in 2020/21 and commence reporting against all performance measures in September 2021, inclusive of performance commentary. The delay until 2021 will allow adoption of revised performance measures which are scheduled for review as part of the LTP 2021/31.*

**2.2.2 Twizel information centre bank reconciliations****Recommendation**

Evidence the independent review of the Twizel information centre bank reconciliation.

**Finding**

There is no evidence of independent review of the Twizel information centre bank reconciliations.

**Management comment**

*The bank reconciliation was completed each month, but was not reviewed. This was completed as at June 30 and will be actioned each month going forward. This account had few, low-value transactions and the Twizel Information Centre is scheduled to close permanently in September 2020.*

**2.3 Information technology – general controls review**

We have completed an IT general controls review of the District Council's IT environment. The objective of our review was to assess whether the IT general controls are design effective, and adequately support our systems based audit approach.

The scope of our review including considering the following activity level control processes:

- the management of security services;
- change management, including change acceptance and transitioning;
- the management of service requests and incidents;
- continuity management, including the back up of data and programs; and
- the availability and capacity of system resources.

Because the District Council ceased using Hurunui District Council for its IT services from 1 January 2020, our review considered the above areas pre and post the transition.

Our review concluded that systems and controls are designed to prevent or detect and correct errors. We have no matters to bring to your attention.



### 3 Other matters



We identified the following other matter during the course of the audit.

#### 3.1 Impact of COVID-19 pandemic

##### **Recommendation**

Complete an assessment of the impact of the COVID-19 pandemic, including the implications this may have on the annual report.

##### **Finding**

On 20 February 2020 we issued our Audit Plan for the District Council for the year ended 30 June 2020. The Audit Plan outlined the main audit risks we identified, and our areas of audit focus.

Following this, on 11 March 2020, the World Health Organisation declared the outbreak of coronavirus (COVID-19) a pandemic. This will have potentially significant effects on the Council's operations, financial, and non-financial performance. It will also result in the additional reporting risks.

It is important to emphasise the risks resulting from COVID-19 are likely to have an impact on the audit report this year. However the final outcome to our opinion is currently uncertain. The audit report may include qualifications to our opinion, or comments we make to emphasise matters (such as uncertainties) disclosed in the financial statements. We will continue to engage with you as matters evolve, and impacts on audit reports become clearer.

We are developing a series of Bulletins in response to COVID-19. These are intended to provide high-level guidance to those with responsibilities for the preparation of financial statements, performance information, or annual reports. The first Bulletin covers guidance for preparers of financial statements on the implications of the COVID-19 emergency response, for revaluations of property, plant and equipment, and investment property. The second bulletin covers potential implications of COVID-19 on non-financial reporting. A link to these bulletins is included 'Useful Publications' below.

We expect the Council to complete an assessment of the impact of the COVID-19 pandemic on its operations and any effect this has on the financial and performance information included in the annual report, including any additional disclosures which may need to be included. This assessment may also include the effect on matters such as revenue recognition, valuation of assets, non-financial performance information and the provision for doubtful debts.

We have provided Council management with a tailored questionnaire to help consider the impacts of the pandemic. We will use the responses to the questionnaire to inform audit risks arising from COVID-19 and any impacts to our audit approach.

**Management comment**

*COVID questionnaire completed and sent 7 August 2020.*

**3.2 Proposal to extend statutory reporting timeframes**

In recent months, many public organisations have needed to work under extraordinary circumstances, dealing with changes to their spending, revenue, and their service delivery. Auditors have been unable to access all of the documentation, systems, and processes they could normally look at as part of an annual audit. COVID-19 has also added significant complexity to judgements for preparers, and auditors.

To ensure quality reporting, governors and preparers need time to fully consider all risks and issues affecting their organisation and make the required judgements. They need to be sure their decisions are reflected in financial reports and service performance reports, and related disclosures to discharge their governance responsibilities for public accountability purposes have been made.

To ensure a quality audit, auditors also need to fully consider these matters, to ensure that the right judgements have been made and that the evidence supports those judgements. In a recent interview, the Chief Executive of the External Reporting Board noted that COVID-19 has led to audits taking up to 40% longer to complete. Because of this the Auditor-General has supported the proposal to extend statutory reporting timeframes, for the media release on this, you can refer to the following link <https://oag.parliament.nz/media/2020/statutory-reporting>.

To maintain trust and confidence, auditors need to prioritise the audits of information significant to the financial statements of the Government and organisations participating in debt and equity markets. The Auditor-General has developed a framework for the prioritisation of all audits across the public sector. This means that even if the District Council might be ready for the audit, we might not be available at that time, and need to renegotiate an alternative timetable with you.

Currently the audit remains scheduled for the weeks detailed in the original audit plan, however reprioritisation will continue to occur as audits progress over the coming months. The risk therefore remains possible that the audit is deferred. If this occurs, we will discuss a revised timetable with you.

**Management comment**

*We note that the legislation has now been enacted to extend the deadline. We are currently working towards existing deadlines for our scheduled audit visit from 29 September.*

## 4 Useful publications



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

Description	Where to find it
<b>COVID-19 Impact on public sector reporting</b>	
<p>We are developing a series of Bulletins in response to COVID-19.</p> <p>The first Bulletin covers guidance for preparers of financial statements on the implications of the COVID-19 pandemic, for revaluations of property, plant and equipment, and investment property.</p> <p>The second bulletin covers implications of the COVID-19 pandemic for service performance reporting, specifically guidance is focus on challenges preparers of performance information may face.</p> <p>A further Bulletin will later be released which covers the implications of the COVID-19 pandemic, which will cover guidance for preparers of financial statements.</p>	<p>On our website under good practice.</p> <p>Link: <a href="#">COVID-19 Bulletins</a></p>
<b>Insights into local government: 2019</b>	
<p>This report discusses several trends and developments in 2019 and gives some insights into how councils were managing risks before COVID-19.</p> <p>Key trends and developments discussed include:</p> <ul style="list-style-type: none"> <li>• the importance of good asset information;</li> <li>• council's activity on climate change; and</li> <li>• audit and risk committees.</li> </ul>	<p>On the OAG's website under publications and resources.</p> <p>Link: <a href="#">Insights into local government: 2019</a></p>
<b>Client updates</b>	
<p>Each year, we organise sessions for our clients in order to provide updates about the</p>	<p>On our website under publications and resources.</p> <p>Link: <a href="#">Client information updates 2020</a></p>

Description	Where to find it
<p>latest thinking in reporting, auditing, and other topics of value for the public.</p> <p>As part of our response to the COVID-19 situation, we have provided this year's material via video presentations on our website, so that viewers can explore the material at a pace that takes account of their busy schedules. The themes also respond to challenges that our clients now face, such as planning for unexpected events or dealing with additional reporting requirements to do with COVID-19 and climate change.</p>	
<b>Model financial statements</b>	
<p>Our model financial statements reflect best practice we have seen to improve financial reporting. This includes:</p> <ul style="list-style-type: none"> <li>• significant accounting policies are alongside the to which they relate;</li> <li>• simplifying accounting policy language;</li> <li>• enhancing estimates and judgement disclosures; and</li> <li>• including colour, contents pages and subheadings to assist the reader in navigating the financial statements.</li> </ul>	<p>On our website under publications and resources.</p> <p>Link: <a href="#">Model Financial Statements</a></p>
<b>Client substantiation file</b>	
<p>When you are fully prepared for an audit, it helps to minimise the disruption for your staff and make sure that we can complete the audit efficiently and effectively.</p> <p>We have put together a tool box called the Client Substantiation File to help you prepare the information you will need to provide to us so we can complete the audit work that needs to be done. This is essentially a tool box to help you collate documentation that the auditor will ask for.</p>	<p>On the OAG's website under publications and resources.</p> <p>Link: <a href="#">Client Substantiation File</a></p>
<b>Good practice</b>	
<p>The OAG's website has been updated to make it easier to find good practice guidance. This includes resources on:</p>	<p>On the OAG's website under good practice.</p> <p>Link: <a href="#">Good practice</a></p>

Description	Where to find it
<ul style="list-style-type: none"> <li>• audit committees;</li> <li>• conflicts of interest;</li> <li>• discouraging fraud;</li> <li>• good governance;</li> <li>• service performance reporting;</li> <li>• procurement;</li> <li>• sensitive expenditure; and</li> <li>• severance payments.</li> </ul>	
<b>Post-implementation reviews</b>	
The OAG have recently completed a review of Auckland Council's post-implementation review process. While many aspects of the report are specific to Auckland Council, it documents the process that Auckland Council uses, and includes a post-implementation review checklist.	On the OAG's website under publications. Link: <a href="#">Post-implementation review process</a>
<b>Reporting fraud</b>	
The OAG have released data from 2012-2018 on fraud in public entities. This includes how the fraud was detected, the type of fraud and the methods and reasons for the fraud. The graphs show the high-level sector, and this can be broken down further into sub-sectors by opening the spreadsheets available.	On the OAG's website under data. Link: <a href="#">Reporting Fraud</a>



## Appendix 1: Status of previous recommendations

### Open recommendations

Recommendation	First raised	Status
<b>Urgent</b>		
<b>Preparation for final audit</b> Implement processes to prepare a high quality annual report. Including: <ul style="list-style-type: none"> <li>• a quality assurance process for the preparation of the annual report;</li> <li>• independent review of the financial statements before they are provided to the audit team;</li> <li>• self-review of the supporting documentation, especially for internal consistency;</li> <li>• clear reconciliation of the amounts in the financial statements to the general ledger;</li> <li>• a project management approach to the annual report preparation, including input from the asset management team on the measures reported in the statement of service performance; and</li> <li>• filing of documentation which supports the results reported in the statement of service performance.</li> </ul>	2018	We will provide our observations following the end of year audit visit. We will comment on any improvements in preparation for final audit, in our final report to the Council.
<b>Systems to record actual performance against targets</b> <ul style="list-style-type: none"> <li>• ensure that appropriate systems are in place to report against all performance measures in the annual report;</li> <li>• identify alternative approaches to provide, the reader of the annual report, with reliable information on the Council's performance in meeting key levels of service targets; and</li> </ul>	2015	<b>In progress</b> NCS system is being currently redesigned to implement requested changes and further improvement areas identified by the management. During our interim testing, we noted that the "attendance" time was the same as the "completion time". We recommend that the attendance times are reviewed and corrected where possible for the 30 June 2020 annual report. Otherwise, the District Council

Recommendation	First raised	Status
<ul style="list-style-type: none"> <li>use these approaches to include the relevant service performance information in its annual report.</li> </ul> <p>Specifically, the following improvements to the service request system should be implemented:</p> <ul style="list-style-type: none"> <li>all complaints have the time of resolutions recorded;</li> <li>include sufficient information on the type of complaint based on the national performance measure categories;</li> <li>filing documentation that supports the results in the statement of service performance; and</li> <li>the initial response times are recorded accurately rather than being the completion time.</li> </ul>		could understate its actual performance.
<p><b>Independent review of Journals on a timely basis</b></p> <p>Require journals to be independently reviewed within five working days to ensure that any errors are identified promptly, and corrected.</p>	2019	<p>We have not identified any issues during interim audit.</p> <p>We will complete further testing of journals at our final audit and report the results in our final report to the Council.</p>
<b>Necessary</b>		
<p><b>Revenue recognition process for financial and development contributions</b></p> <p>Apply the correct revenue recognition point for a development or financial contribution, which is at the later of when the District Council is ready to provide the service, or the event that will give rise to a requirement for a development or financial contribution.</p>	2019	<p><b>In progress</b></p> <p>The process is being implemented currently.</p> <p>We will report our observations after completing final audit testing.</p>
<p><b>Preparation for upcoming accounting standards</b></p> <p>Review and clarify the contractual arrangements on the Downlands Water supply Joint Committee.</p>	2019	<p>We will assess the proposed accounting treatment during our final audit visit.</p> <p><i>Legal opinion has been received and our interpretation of this is that the Consolidation method should be used. We are awaiting confirmation of agreement of this from Audit NZ.</i></p>

Recommendation	First raised	Status
<b>Reconciliation of the year end trial balance to the annual financial statements</b> Reconcile the year-end trial balance to the annual financial statements.	2019	<b>In progress</b> We have provided management a trial balance mapping tool for the reconciliation of the year end trial balance to the annual financial statements. We will report our findings in this area after final audit testing is completed.
<b>Review the processes and reconcile the Pukaki Airport section and sales</b> Review the processes, and reconcile the District Council's records for Pukaki Airport for sections, sales and deposits, with Wanaka Law's records.	2019	<b>In progress</b> We will report our findings in this area after final audit testing is completed.
<b>Review GST return processes and procedures</b> Implement formal GST return processes and procedures. Complete the reconciliation of the general ledger, GST return and the financial statements. Rectify any system or procedural issues identified.	2019	<b>In progress</b> Council has documented its GST return processes and procedures. We will follow up management's reconciliation of the general ledger, GST return and the financial statements at our final audit.
<b>Stocktake of property, plant and equipment</b> Conduct a stocktake of property, plant and equipment, and reconcile this to the fixed asset register on a periodic basis.	2014	<b>In progress</b> Due to resource constraints, no regular stocktakes has been completed. However management has completed an IT equipment stocktake and implemented new process for the regular review, stocktake, and reconciliation of these assets.
<b>Beneficial</b>		
<b>Declaration of interests</b> Remind elected members to declare their interests within the interest register. Monitor financial transactions with the District Council to ensure compliance with the Members Interest Act 1968.	2019	We will follow this matter up at the final audit visit as part of our review of related parties disclosures.



Recommendation	First raised	Status
<b>Timeliness of bank reconciliations</b> Bank reconciliations be prepared and independently reviewed within five working days of month-end.	2018	We have identified two instances where bank reconciliations were not independently reviewed within five working days of month end.
<b>Roading – AECOM recommendations</b> Implement the AECOM recommendations included in its revaluation report.	2017	We will follow up progress of the suggested improvements by AECOM within the 1 July 2019 revaluation during our final audit.
<b>Review of useful lives of fixed assets</b> Annually review current depreciation rates to determine if they are still appropriate and revise them where they are not. Ensure remaining useful lives are updated when significant repair work is undertaken on an asset which extends its useful life. Perform a stocktake of assets, with a net book value less than 10% of their costs, to determine the existence of assets. Remove any assets that do not exist, from the fixed asset register.	2018	New Roding and Waters valuations include the assessment of useful lives of assets. Due to resource constraints, there has been no formal review of the useful lives and depreciation rates of other fixed assets. Management advised that there has been no significant matters arising which indicates changes needed to depreciation rates. As noted above, other than IT assets, no stocktake of fixed assets have been completed.
<b>Recognise disposals on infrastructural assets</b> Recognise disposals on infrastructural assets in accordance with accounting standards.	2019	Management has not been able to identify, and therefore write off, the carrying value of infrastructure assets replaced (such as renewals) and transfer the associated reserves between different classes of equity. This results with an understatement of general equity and overstatement of asset revaluation reserves within the financial statements. Management notes that the carrying value of infrastructures assets are reassessed after revaluations.
<b>Componentisation of buildings for depreciation purposes</b> Review the componentisation of buildings for depreciation purposes.	2019	This review has not yet occurred.

Recommendation	First raised	Status
<b>Review of cost drivers and allocation rates</b> Review the appropriateness of the District Council's cost drivers and allocation rates.	2019	Management advised us that these costs are allocated on basis of operational Expenditure of each unit. This has been endorsed by Council.  This entry will be completed at year end.  We will therefore review this at during our final audit.
<b>Sensitive expenditure policy</b> Implement improvements to align with the OAG best practice guidelines.  This includes sensitive expenditure policy for credit card use, travel, entertainment, food and beverages, and accommodation.	2018	We note there has been significant improvements to the District Council's policy.  Appendix 3 includes recommendations from our review of the District Council's latest sensitive expenditure policy dated 12 May 2020.  <i>Councils Policy has been updated to reflect the suggested changes and will be presented to Council at their meeting in September 2020</i>
<b>Revenue policy</b> Develop and distribute, to relevant staff members, a formal debt recovery policy.	2013	Management are in the process of reviewing the District Council's debt recovery policy.
<b>Review and approval of carry forwards</b> Implement a formal process to review and approve budget of carry forwards.	2019	Council has approved the capital carry forwards from 2018/19 into 2019/20 in its meeting on 23 June 2020.  Management is finalising a formal capital carry forward process.

**Implemented or closed recommendations**

Recommendation	First raised	Status
<b>Fixed asset policy</b> Adopt a fixed asset policy to manage the process the asset additions and disposals.	2014	Council adopted fixed asset policies on 12 May 2020, including asset management, fixed asset accounting policy, asset disposal policy.  The policies include guidelines on capitalisation, depreciation and disposal of fixed assets.
<b>Policy Development</b> To facilitate timely reviews of policy, a policy schedule be created to identify all policies, the date they were approved and the date they are due for review.	2013	The Senior corporate planner maintains a policy register which is currently under review and is continually being updated.  This register includes policy, the role responsible, policy date adopted, policy review date, the next review date.
<b>Pukaki Airport Board</b> Review the operation of the Committee to determine whether a revised structure is required to provide effective oversight of the Pukaki Airport operations and assets.	2017	Pukaki Airport Board was disestablished.  A newly formed Commercial and Economic development committee has taken over these responsibilities.
<b>Tax treatment of rental reimbursements</b> Review the tax treatment of rental reimbursements paid to staff.  Address any instances where insufficient tax has been deducted.	2019	The District Council engaged external tax advisor. A voluntary disclosure has been prepared for submission to IRD.
<b>Clarify private expenditure within sensitive expenditure policy</b> Clarify, in the sensitive expenditure policy that all private expenditure incurred is prohibited, or specify that any debts are to be paid to the District Council before it is due to make payment to the "credit card" provider.	2019	The District Council's sensitive expenditure policy adopted 12 May 2020 includes guidance on the circumstances regarding private expenditure: <ul style="list-style-type: none"> <li>Limited circumstances where private use is acceptable such as being incidental to business use, impractical or uneconomic.</li> <li>The use of Council credit cards for private expenditure or credit is prohibited.</li> <li>There are references to reinforce no private use or the recovery of privately incurred costs.</li> </ul>

Recommendation	First raised	Status
<b>Approval of the Mayor's credit card expenditure</b> Update sensitive expenditure policy to require the approval of the Mayor's credit card by the Audit and Risk Committee Chair.	2019	The District Council's sensitive expenditure policy adopted 12 May 2020 includes reference to one up approval of the Mayor's credit card and the Mayor's by the Audit and Risk Committee.
<b>CCO exemption for Mackenzie Holdings Limited (MHL)</b> Renew the CCO exemption, under section 7 of the Local Government Act 2002, for Mackenzie Holdings Limited.	2019	On 23 June 2020, Council approved to confirm the exemption of MHL.

## Appendix 2: Procurement policy recommendations

We reviewed the District Council's procurement policy adopted 12 May 2020 against good practice guidelines for the public sector. The below elements are additional policy items which could be included, to further improve the policy.

Procurement policy recommendations	
<b>Legal considerations</b>	
•	Clarify when legal advice should be sought and where it can be obtained from.
•	Identify the risk of creating a "process contract" and what that might mean for the procurement.
•	Address the issue of ownership of intellectual property.
<b>Managing Contract Arrangements</b>	
The Policy should discuss how to manage contact arrangements and communications with potential suppliers during a procurement process. The policy should discuss:	
•	Discouraging informal contact.
•	Establishing a single point of contact.
•	Disseminating the same information to all submitters unless it is "commercial in confidence".
•	Controls for the security of both electronic and hard copy information.
<b>Sustainability</b>	
•	Set out how the organisation addresses sustainability in its procurement.
•	Require sustainability requirements to be included in tender documents and contracts.
<b>Tendering process</b>	
•	Include various tendering steps and approaches.
•	Outline the range of criteria that are used to evaluate tenders.
•	State the organisations preference for electronic or physical tendering.
•	Include a provision for the treatment of late tenders.
•	Set out how and when contract negotiation is carried out including who is involved.
•	Outline if unsuccessful tenders should be debriefed.
•	Identify the key elements that should be included in contract management (post contract award) planning.
•	Require whether a contract review is to be performed in advance of a contract ending. This would be for the review to be used as an input to procurement planning for any new contract.

## Appendix 3: Sensitive expenditure policy recommendations

We reviewed the District Council's updated sensitive expenditure policy adopted 12 May 2020 against good practice guidelines for the public sector. Below are the areas for improvement we identified from our review.

Recommendation
<b>Credit Cards</b>
<p>Credit card policies and procedures need to set out the person or people responsible for authorising card issue, managing the acquisition of cards, and monitoring and reporting on their use.</p> <p>The District Council's policy appropriately addresses monitoring of credit cards. Further details could be added to the policy to outline the more specific procedures in place for applying/issuing cards to employees.</p>
<p>Credit card policies and procedures need to set out that credit limits are to be set by the entity (not by the card holder) at the minimum necessary to enable the card holder to undertake their duties for the entity.</p> <p>The District Council's delegations manual has a \$10,000 limit set on the Chief Executive Officer and Mayors credit cards. Further details could be added to the policy to outline the process for determining credit card limits for other staff.</p>
<b>Travel, meals and accommodation expenditure</b>
<p>The entity's travel policies and procedures should outline the costs that may be paid when staff members stay with a friend or relative rather than in commercial accommodation.</p> <p>The District Council's policy can be improved to add guidance for whether staff may stay with a friend or family member while on business, rather than using commercial accommodation. If staff stay with a friend or relative the policy should make it clear what costs the staff member will be entitled to be reimbursed for.</p>
<b>Entertainment and hospitality expenditure</b>
<p>Policies on entertainment related expenditure should include clear guidance on whether alcohol will be paid for by the entity, and, if so, the circumstances and limits that apply.</p> <p>The District Council's policy notes when it is appropriate for the District Council to fund the purchase of alcohol for entertainment and hospitality purposes. The District Council's policy can be improved to include further detail on specifying the circumstances this is appropriate and any limits that apply.</p>



## Appendix 4: Disclosures

Area	Key messages
Our responsibilities in conducting the audit	<p>We carry 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. 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 carry out our audit in accordance with the Auditor-General's Auditing Standards. The audit cannot and should not be relied upon to detect every instance of misstatement, fraud, irregularity or inefficiency that are immaterial to your financial statements. The Council and management are responsible for implementing and maintaining 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 (Revised): <i>Code of Ethics for Assurance Practitioners</i>, issued by New Zealand Auditing and Assurance Standards Board.</p> <p>To date, other than the audit, we have no relationship with, or interests in, the District Council.</p> <p>To date, in addition to the audit we are engaged to carry out the limited assurance engagements related to the Council's Debenture Trust deed, 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 proposed audit fee for the year is \$108,530, including estimated audit fee for review of revaluation for infrastructure assets, land and buildings and assessment of impact of new accounting standards for interests in Downlands Water Scheme. The proposed audit fee is detailed in our Audit Proposal Letter.</p> <p>To date, no other fees have been charged in this period.</p> <p>We intend to charge \$4,000, for the assurance review of the Debenture Trust deed.</p>

Area	Key messages
Other relationships	<p>To date, 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 to date 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>

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## COVID-19 questionnaire

**Client:** Mackenzie District Council

**Responses prepared by:** Adrian Hodgett

The purpose of this questionnaire is to help us understand some of the risks and challenges that you are facing in preparing your accounts as a result of COVID-19 and to facilitate further discussion. If you are unsure about any of the questions below, please contact your Appointed Auditor or Audit Manager to discuss.

Question	Response
<b>General</b>	
Are you aware of the <a href="#">COVID-19 bulletins</a> covering revaluations of property, plant and equipment and investment property, and service performance reporting, that are available on our website?	Yes
How did lockdown impact the operations of your organisation?	Please see attached letter dated 26 march on Essential services and Contractors for MDC.
<i>What elements of your organisation were deemed essential and continued to operate during lockdown?</i>	Not applicable
<i>What elements were deemed non-essential but were able to operate in a modified form (for example, online)?</i>	With flexibility to meet service requirements
<i>How did this change under each alert level?</i>	
Have you performed an impact assessment on a line-by-line basis over the statement of financial position and statement of comprehensive revenue and expenses?	No impact assessment has been completed for the financial statements of Mackenzie District Council.
If so, can you please provide us with a copy of this assessment?	
Have you received any accounting advice for COVID-19 related issues?	No
If so, could you please provide us with a copy of the advice?	

Question	Response
<b>Going concern</b>	
What impact did COVID-19 have on your financial results and financial position?	We are currently expecting minimal impact on our financial results and financial position as a result of COVID-19.
How have you considered the impact of COVID-19 in the going concern assessment that you have prepared/are preparing?  <i>There are requirements in both NZ IFRS and PBE IPSAS to assess the validity of the going concern assumption, looking forward at least 12 months.  The client substantiation section of our website contains <a href="#">good practice guidance</a> that may assist you in preparing your assessment.</i>	We do not believe that COVID-19 will have an impact on the going concern assessment for Council. Council has \$millions cash invested in short-term deposits, has certainty due to legislation on Rates Income and is planning for future investment in both its Annual Plan 2020/21 and LTP.
Are you likely to need a letter of support or comfort to support your going concern assessment?	No
How sensitive is your going concern assessment to changes in inputs and assumptions?  <i>We will need to review the going concern assumption at the beginning of the audit as well as prior to issuing the audit opinion. You will need to consider any changes between this period and how they impact your assessment.</i>	Not applicable
<b>Governance</b>	
To what extent are those charged with governance involved in the decision making and response to COVID-19?	Mayor and CEO met on a daily basis during COVID.  Council Workshops and Council meetings held via Zoom
Were any new committees set up in response to COVID-19?  If so, can you provide us with copies of the minutes of these meetings?	Not applicable
Did the audit and risk committee continue to meet (even if virtually) during the lockdown period?	No – one meeting was scheduled but this was cancelled.
Are those charged with governance engaging with management on COVID-19 accounting issues and disclosures?	Not applicable

Question	Response
<b>Risk management</b>	
<p>What additional risks have been identified as a result of COVID-19?</p> <p>Have these been added to the risk register or captured in a separate COVID-19 response document?</p> <p>If additional risks were added, please advise us what these were.</p>	<p>Two risks added to the register:</p> <p>Insufficient staffing resources are available capability to achieve delivery of COVID recovery projects</p> <p>Coronavirus impacts staff and Councillors to the extent delivery of services is impacted</p>
<p>Have there been any changes to risk management processes as a result of COVID-19? If so, what were they?</p> <p><i>In particular have any financial risk management processes changed? E.g. risk management in financial instrument note may need to be updated.</i></p>	No
<b>Significant contracts</b>	
<p>Has COVID-19 impacted on your organisation's ability to honour significant contracts?</p> <p>If so, what are the legal implications?</p>	No
<p>Have there been any payments made to contractors during lockdown, not directly related to work performed (for example, to retain capacity or for contract extension)?</p> <p>What is the value and how are you proposing to account for these costs?</p>	No
<p>Have you considered whether any existing contracts are now deemed onerous (loss-making) as a result of COVID-19?</p> <p><i>The impact of the COVID-19 pandemic may cause delays or changes to costs to complete a contract. As a result an onerous contract could arise.</i></p>	Yes considered – however none considered onerous
<b>Control environment</b>	
<p>What was the impact of the lockdown and other restrictions on procurement processes?</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li><i>Were there deviations from the delegations policy during the lockdown? Or was the delegations policy amended?</i></li> </ul>	By resolution of Council, powers were delegated to the CE for the duration of lockdown however delegations relating to procurement processes

Question	Response
<ul style="list-style-type: none"> <li>How did processes that are normally manual occur during lockdown? For example, were approvals given via email instead of hard-copy signatures?</li> <li>Did the lockdown create any backlog of processing?</li> </ul>	<p>were not used outside of the standing delegated powers</p> <p>Initially, approvals for creditors invoices were by email. However, the process was refined shortly after lockdown started to allow approval via electronic signature</p> <p>No backlog</p>
<p>Were any emergency purchases required (for example, new IT equipment, personal protective equipment)?</p> <p>Did you procure these emergency goods and/or services by applying emergency procurement provisions and if so, did you keep a separate record of this procurement?</p>	<p>Yes – PPE (mainly hand sanitiser and wipes, etc)</p> <p>No – procurement was within normal policy.</p>
<p>What was the impact of the lockdown and other restrictions on payroll processes?</p> <p>For example:</p> <ul style="list-style-type: none"> <li>How did processes that are normally manual occur during lockdown? E.g. were approvals given via email instead of hard-copy signatures?</li> <li>Did the lockdown create any backlog of processing?</li> </ul>	<p>None</p> <p>Electronic signatures were used.</p> <p>No</p>
<p>Were any changes made to banking signatories during the lockdown?</p>	<p>No. All payment authorisations are electronic normally so this process continued throughout lockdown.</p>
<p>What was the impact of lockdown on other systems of internal control, such as revenue and journals, due to working remotely, staff availability, or any other factors?</p>	<p>None. Staff were able to process work normally from home during lockdown.</p>
<p>If there were changes to the systems of internal control (for expenditure, payroll, or otherwise), has your organisation reverted back to the systems as they were pre-lockdown?</p> <p>If so, when did this occur?</p>	<p>No, the changes were viewed as positive, so they have been adopted as the new normal.</p>
<p>Were any user access roles changed within the financial management information system (FMIS),</p>	<p>No</p>



Question	Response
<p>payroll system, or other information systems during lockdown?</p> <p>What were the changes?</p> <p>Has your organisation reverted back to the settings as they were pre-lockdown?</p> <p>If so, when did this occur?</p>	
Is there anything else we should know about the way your internal controls operated during the lockdown?	No
<b>Accounting policies and disclosures</b>	
What significant judgements are you planning on adding or changing in your financial statements as a result of COVID-19?	No significant judgements are expected to be required.
<p>What other disclosures are you planning to make in your notes to the financial statements and annual report on the impact of COVID-19?</p> <p><i>We expect all organisations to include, at a minimum, a COVID-19 note explaining the impact of the pandemic on the organisation.</i></p> <p><i>Additional disclosures around specific account balances may also be required, particularly where there are judgements and sensitivities relating to COVID-19.</i></p>	We will include a note explaining the impact of the pandemic on the organisation.
<b>General valuation</b>	
<p><b>Items carried at fair value</b></p> <p><i>Both PBE IPSAS 17 and NZ IAS 16 require that for property, plant and equipment asset classes measured using the revaluation model:</i></p> <ul style="list-style-type: none"> <li><i>Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period (NZ IAS 16.31, PBE IPSAS 17.44).</i></li> <li><i>When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required (NZ IAS 16.34, PBE IPSAS 17.49).</i></li> <li><i>If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued (NZ IAS 16.36, PBE IPSAS 17.51).</i></li> </ul> <p><i>Therefore, the fair value of assets measured at fair value needs to be assessed at each reporting date to see if there has been a material movement in value. This is referred to below as a "fair value assessment". If there has been a material movement, then a revaluation of the relevant asset class is required. If the fair value movement is not material then a revaluation of that asset class is not required this year. Evidence to support the fair value assessment needs to be provided to the auditor.</i></p>	

Question	Response
<p><i>Those entities that hold investment property are required to revalue this to fair value at each reporting date, if they have adopted the revaluation model under either under PBE IPSAS 16 for public benefit entities or NZ IAS 40 for for-profit entities.</i></p> <p><b>Items carried at historical cost</b></p> <p><i>Impairment assessments need to be completed for goodwill and other cash-generating property, plant and equipment held at cost. The COVID-19 pandemic and related economic impacts are an indicator of impairment, triggering the requirement to estimate the recoverable amount for all relevant cash-generating assets.</i></p> <p><i>For non-cash-generating PBE assets recorded at cost, an impairment assessment is only necessary if there is an indicator of impairment. For example, if there has there been a significant reduction in demand for services provided by the asset, or long-term changes in the way the asset is expected to be used.</i></p>	
<p>For which of the following assets classes has a revaluation, fair value assessment, or impairment assessment been completed (<i>Please provide details for each asset class – for example, revaluation completed for land and buildings, impairment assessment completed for cash generating units</i>):</p> <ul style="list-style-type: none"> <li>• property, plant and equipment;</li> <li>• intangible assets;</li> <li>• forestry assets</li> <li>• investment property; and</li> <li>• inventory.</li> </ul> <p><i>We are expecting impairment or fair value assessments to be prepared and provided to us for all significant cash-generating asset classes not undergoing a revaluation at balance date.</i></p>	<p>All Land &amp; Buildings</p> <p>Forestry – as normal</p>
How has the impact of COVID-19 been factored into the revaluations/assessments performed?	The valuer has factored recent sales (during COVID-19 lockdown) into the valuation.
Which of the revaluations/assessments (if any) rely on future cash flow assumptions or market based transactions?	Forestry Land & Buildings
<p>For revaluations of assets on a depreciated replacement cost (DRC) basis to what extent have COVID-19 factors impacted on the replacement costs used in the model?</p> <p><i>Replacement costs used in DRC valuations should reflect typical and sustainable market conditions.</i></p>	N/A – Infrastructure revaluation was done on 1/7/2019, prior to the COVID-19 situation.

Question	Response
<p>Have you discussed with your valuers what to expect from their report and whether it will include any caveats?</p> <p><i>Some valuers are drawing the attention to the inherent uncertainties in valuations at this time. We need to consider the impact of these on our audit report.</i></p>	No
<b>Property, plant and equipment</b>	
<p>What impact has COVID-19 had on existing capital projects?</p> <p><i>For example, have any projects been deferred, changed costs, or had impacts to service delivery?</i></p>	Some projects were delayed and this will increase the amount of 'carry forward' into the 2020/21 capital programme.
Are there any projects in work in progress at balance date that are now unlikely to go ahead?	No
<p>What has been/is the impact on your capital renewal and replacement programmes?</p> <p><i>Changes to timing for renewal of assets may impact on the estimated useful lives of existing assets.</i></p>	Increased due to bringing forward of \$10m+ of 'Shovel Ready' projects in order to stimulate the recovery of the local economy.
<p>Did you purchase any temporary equipment to enable employees to work from home (e.g. desks, chairs, printers, laptops) or to protect them in their role as an essential work (Perspex shields, added barriers and signage)?</p> <p>Were these expensed or capitalised? Was the normal capitalisation threshold applied?</p>	No
<b>Forestry assets</b>	
<p>What is the intended sales market for the trees when they are harvested?</p> <p><i>E.g. Local, national, or export. Firewood, construction, other.</i></p> <p>What is your understanding of the impact of COVID-19 on this market?</p>	Log prices reduced.
What percentage of trees are expected to be harvested in the next three years? Have your plans changed as a result of COVID-19's impact on the forestry sector?	Plans unchanged due to COVID-19?



Question	Response
<i>If trees are expected to mature and be harvested in the short term, it is more likely that COVID-19 will have a negative impact on the valuation.</i>	
<b>Future cash flows</b>	
<p><i>The questions in this section apply where forecast cash flows have been used for:</i></p> <ul style="list-style-type: none"> <li><i>the fair value assessment of assets carried at fair value;</i></li> <li><i>the revaluation of assets (e.g. a discounted cash flow valuation approach);</i></li> <li><i>goodwill impairment assessment;</i></li> <li><i>value in use assessments; and</i></li> <li><i>the going concern assessment.</i></li> </ul>	
How have the effects of COVID-19 been factored into forecast cash flows?	Future income forecasts were reduced for Building Control and Resource Planning.
How have the effects of COVID-19 been factored into determining the appropriate weighted average cost of capital (WACC) or other discount rates applied to the forecast cash flow?	We do not use Discounted Cashflow forecasts.
Has any external advice been sought on determining the appropriate WACC or other discount rates?	N/A – as above.
What impact has COVID-19 had on any growth assumptions?	Draft growth projections are being revised to include a factor of COVID-19 impact
<b>Revenue and trade and other receivables</b>	
What assessment has been performed over the collectability of debtors?	No change in assessment. We are continuing to collect debt in accordance with our normal procedures.
Have you changed how you calculate your provision for doubtful debts?	No
If not, why is the previous calculation method still appropriate?	We are not expecting large amounts of debt to be unpaid as a result of COVID-19.
Have any significant debtors been disestablished, liquidated, or otherwise discontinued operations?	No
<p><i>This will need to be assessed prior to finalising the financial statements. COVID-19 increases the likelihood of adjusting events in relation to impairment of debtors.</i></p>	

Question	Response
Do you have a significant amount of airline credits as a result of cancellations from COVID-19?	No
How are you planning on treating this in your financial statements?	
<b>Investments</b>	
Prima facie the impact of COVID-19 on the broader economy is an indicator of impairment.  How has impairment been considered for investments in subsidiaries, associates or joint ventures (for example, if their business was adversely impacted by COVID-19)?  If so, what impairment assessment was performed, and what was the outcome of this assessment?	No impact on Downlands Water Supply (joint venture)
Has there been impairment for other investments such as bonds or shares?	Per Bancorp quarterly report to June 2020, bonds have reduced in value but not significantly.
Do you have any unquoted shares that are not valued at balance date?  For unquoted shares that are revalued, how have COVID-19 issues been considered in the valuation? (for example, impact on profitability of the investee).	Alpine Energy  Year-end valuation undertaken by preferred valuer on behalf of Shareholders Mackenzie and Waimate District Councils
For any loans receivable, will/has the economic impact of COVID-19 affected the borrower's ability to repay the loan?  Have you provided any relief or concessions to the borrower?	MDC does not have any loans receivable.
<b>Assumptions into long-term valuation models</b>	
For long-term receivables (or similar) that are valued using complex models and long term economic assumptions, such as GDP, CPI, wage growth, where have these long term assumptions been sourced from? To what extent have these taken into account COVID-19 impacts?	N/A
For long-term employee entitlements (such as retiring or long service leave) where have the long term assumptions (such as wage growth) been sourced from? To what extent have these taken into account COVID-19 impacts?	N/A

Question	Response
<b>Leases - lessor</b>	
For lessors, have you provided any rental concessions to your lessees?  If so, how are you proposing to account for the rental concessions?	We provided rates relief to a number of tenants upon application.  April – Rent free May 33% discount June – 33% discount
Does your lessee still have the ability to fulfil their contractual lease obligations?	Yes they do
<b>Leases - lessee</b>	
For lessees, have any rental concessions been provided by your lessor?  If so, how are you proposing to account for the rental concessions?	No
<b>Borrowings</b>	
Are any debt covenants at risk of being breached/have been breached?  Does the classification of borrowings as current or non-current reflect breaches if loans became repayable on demand and no waiver was obtained by balance date?	MDC has no external debt.
Has the lender provided any relief from interest payments or any other form of relief, for example variations to covenants?	N/A
Have you needed to secure additional borrowing facilities, or drawn down new or existing facilities?  Please provide details.	No. We are planning to borrow to fund shovel ready projects later in 2020.
<b>Staff costs and remuneration</b>	
Did you make a claim from the government's wages subsidy scheme?  If so, have the eligibility criteria been met in full? Have you sought any legal advice regarding the wage subsidy?  If the eligibility criteria have not been met, have you repaid/do you intend to repay the subsidy received?	No  N/A  N/A

Question	Response
How are you planning to recognise, present, and disclose the wage subsidy and any related receivables?	N/A
Are you planning on disclosing wage subsidy revenue gross in your statement of comprehensive income? <i>In other words, not offsetting the subsidy against employee costs.</i>	N/A
What is the value of your wage subsidy receivable at balance date (if relevant)? <i>If a valid application was submitted prior to balance, a receivable should be recognised at the date of that application.</i>	N/A
What is the value of your deferred revenue liability for the wage subsidy scheme at balance date? <i>A deferred revenue liability should be recognised at the time a valid application is submitted and revenue recognised over the 12 week subsidy period (or 8 weeks for the extension scheme).</i>	N/A
Have there been or are there likely to be any one-off payments or bonus payments to be paid to staff due to their performance related to COVID? If not yet paid, have these been accrued?	No
Did your staff work on any other areas due to their usual work not being available? How has this been reflected in cost allocations?	Some staff assisted in the EOC however this was not necessitated by unavailability of work within their usual roles.
Have any remuneration policies been amended as a result of COVID-19? If so, what has been the impact on employee entitlements?	No
Have the board and/or management started to implement a plan for restructuring before balance date, or are they likely to do so prior to the financial statements being issued? If so, please provide details of how many employees this is expected to impact. <i>A restructuring provision needs to be recognised where you have raised a valid expectation in those affected that you will carry out the restructuring</i>	No




Question	Response
<p><i>by starting to implement that plan or announcing its main features to those affected by it, prior to balance date.</i></p> <p><i>If this occurred after balance date, this would be a non-adjusting event that needs to be disclosed if considered material.</i></p>	
<b>Concessions and other financial support/relief</b>	
Have you received any other forms of government financial support?	
Have any suppliers provided concessions?	No
<b>Performance Reporting</b>	
Are you aware of the bulletin: <a href="#">Implications of the COVID-19 emergency for service performance reporting?</a>	
<p>Did any of the conditions under the different alert levels result in limitations in collecting and reporting data for performance reporting?</p> <p><i>For example, were there any controls/processes that were unable to operate as per usual during the lockdown period?</i></p>	No impact on collecting or reporting of performance
<p>Which aspects of your performance have been significantly impacted by COVID-19?</p> <p><i>For example, services may have been reduced or increased, or new or enhanced services may have been delivered in response to the COVID-19 emergency.</i></p>	No significant impacts on performance resulting from COVID-19
Are there any measures that you are proposing not to report against due to COVID-19, or not completing? (e.g. surveys)	No change to performance reporting is proposed as a result of COVID-19
<p>How do you plan to reflect the impacts of COVID-19 due on your performance reporting due to the matters listed above or other matters?</p> <p><i>For example, how do you propose to indicate your performance in relation to any new or enhanced services?</i></p>	Not applicable. See above.
For any services significantly affected by COVID-19, have you considered splitting your reporting against the relevant service measures into the	Not applicable. Refer above.

Question	Response
period before the COVID-19 emergency and the subsequent COVID-19 response affected period?	
Have those charged with governance been involved in determining the appropriate level of disclosure on the impact of COVID-19 for performance reporting?	Not applicable. Refer above.
What level of narrative are you planning to include with your performance information? <i>For example, an introductory paragraph or detailed disclosure at the individual service or performance measure level.</i>	The Annual Report will include general discussion of Council's response to COVID-19 however, as above consideration against specific performance areas.
<b>Anything else</b>	
Is there anything else you think is important for us to know? <i>Please discuss with your Appointed Auditor or Audit Manager if you believe there are any other significant risks or issues.</i>	Not at this stage. More information may come to light as we proceed with the recovery phase.

## 5.5 REVISED TERMS OF REFERENCE

**Author:** Katherine Hill, Senior Corporate Planner

**Authoriser:** Paul Numan, General Manager Corporate Services

**Attachments:** 1. Chief Executive Performance Committee Terms of Reference [↓](#)   
2. Audit and Risk Committee Terms of Reference [↓](#) 

### STAFF RECOMMENDATIONS

That the information be noted.

### BACKGROUND

The oversight of the chief executive's performance were written into the Terms of Reference for the Audit and Risk Committee adopted by Council 11 February 2020.

At its first meeting of the triennium, the Audit and Risk Committee considered these Terms of Reference and the following discussion was recorded in the minutes:

#### 5.1 AUDIT AND RISK COMMITTEE - TERMS OF REFERENCE

Mr Mincham raised the subject of the chief executives performance review, which was included in the Terms of Reference for Audit and Risk. He said it was not normal practice to have this within the responsibility of the Audit and Risk Committee.

He suggested that this become either a sub-committee of Council or a sub-committee of Audit and Risk. He was concerned that he would not have the same amount of contact with the chief executive as other members of the committee and therefore not be able to discharge this duty well.

Discussion took place on this matter. John Mackey from Audit NZ was asked for his view. He said the usual practice was to form a small subcommittee which made recommendations to Council.

The chairperson suggested that the Audit and Risk Committee forms a subcommittee with membership consisting of the Mayor, Deputy Mayor, and Chair of the Audit and Risk Committee. There was general agreement on this and resolutions were passed accordingly.

#### COMMITTEE RESOLUTION AUD/2020/1

Moved: Cr Stuart Barwood

Seconded: Cr Anne Munro

1. That the report be received.

**CARRIED**

#### COMMITTEE RESOLUTION AUD/2020/2

Moved: Mayor Graham Smith

Seconded: Cr Anne Munro

2. That a sub-committee be formed to review the Chief Executive's performance with membership consisting of the Mayor, Deputy Mayor and Chairperson of the Audit and Risk Committee.

**CARRIED**

**COMMITTEE RESOLUTION AUD/2020/3**

Moved: Mr Bruce Mincham

Seconded: Cr Matt Murphy

3. That the Audit and Risk Committee recommends to Council that it reconsiders whether the chief executive's overview sits with the Audit and Risk Committee or with Council.
4. That the Audit and Risk Committee be informed of Council's decision.

**CARRIED**

This paper has been prepared to action resolution 4 of 25 February 2020.

Council have, following the request by the Audit and Risk Committee, reviewed mechanisms for achieving the performance review of the Chief Executive. At the meeting of 30 June 2020, Council resolved that a standing committee of Council be established to be responsible for these tasks. Terms of Reference (attachment 1) were adopted.

As this decision has removed the responsibility for the Chief Executive's performance management from the remit of the Audit and Risk Committee, revised Terms of Reference for the Audit and Risk Committee were also adopted by Council on 30 June 2020. Changes to these Terms of Reference have been limited to the removal of these responsibilities. Revised Terms of Reference of the Audit and Risk Committee are attached for reference (attachment 2).

## **CONCLUSION**

The purpose of this report to inform the Audit and Risk Committee of the Council's decision to establish a Chief Executive Performance Committee, and to advise of the related change to the terms of reference of the Audit and Risk Committee.



## Chief Executive Performance Committee

The purpose of the Chief Executive Performance Committee is to review the performance of the Chief Executive annually, and also undertake the legislative requirements in relation to the Chief Executive's performance. The legislative basis for this committee is Schedule 7 clause 30 (1) (a), Local Government Act 2002.

### 1.1 Terms of Reference

The committee's role is to:

1. In May of each year:
  - a. Review the performance of the Chief Executive against the performance targets for the preceding year.
  - b. In conjunction with the Chief Executive Officer, set and confirm the performance targets for the upcoming year.
2. In December of each year:
  - a. Undertake a mid-year performance review; and
  - b. In conjunction with the Chief Executive Officer, set or amend, where appropriate, the key performance indicators for the remainder of the performance year.
3. In August of each year, the committee will, in consultation with the Chief Executive Officer, undertake a review of the terms, conditions and term of employment agreement in accordance with the following:
  - a. As a good employer, any amendments or alterations to the terms and conditions will be made in mutual agreement of the Committee and Chief Executive Officer, in good faith, providing fair and proper treatment in all aspects of employment.
  - b. The Committee is committed to applying fair and equitable remuneration and reward practices, taking into account internal and external relativities, Local Government practices and the ability to achieve the Mackenzie District Council strategic objectives.
  - c. As part of the Remuneration considerations, individual performance as well as internal and external relativities will be taken into account regarding any Chief Executive Officer remuneration based decisions, balanced by the organisational context, performance and affordability.
4. Undertake a performance review at end of first term of appointment as required by Schedule 7, clause 35 of the Local Government Act 2002, which currently provides:
  - (1) *A local authority must, not less than 6 months before the date on which the chief executive's contract of employment for the first term expires, conduct and complete a review of the employment of the chief executive.*
  - (2) *The review must assess –*
    - (a) *The performance of the chief executive; and*
    - (b) *The mix of skills and attributes possessed by the chief executive, and the degree to which they are consistent with the skills and attributes that the local authority considers necessary for the future; and*

- (c) Any other factors that the local authority considers relevant.*
- (3) To avoid doubt, responsibility for determining the degree to which any factors in subclause (2)(a) and (b) apply to a review, and the relevance of any additional factors under subclause (2)(c), rests solely with the local authority.*

*Subclause (1) does not apply if the incumbent chief executive declares in writing to the local authority that he or she does not wish to be considered for appointment to a second term.*

## **1.2 The scope of this Committee includes:**

Considering matters relating to the performance of the Chief Executive Officer, including annual performance review.

The Committee shall have delegated authority to make decisions for and on behalf of the Council.

<b>Membership</b>	The Chief Executive Performance Committee will be a standing committee of all Councillors and the Mayor.
<b>Quorum</b>	The quorum shall be four members.
<b>Chair</b>	The Chair will be appointed by the Mayor.
<b>Meetings</b>	The Committee will meet at least twice a year (May and December) to review performance and once per year to review employment arrangements (August), and six months before the expiry date of the Chief Executive's contract of employment.

**Audit and Risk Committee**

The purpose of the Audit and Risk Committee is to provide governance and oversight of the effectiveness of risk management and internal control systems, including internal audit and external audit relationships.

***Terms of Reference***

- Monitor the Council's external and internal audit process.
- Consider and make recommendations to the Council on:
  - a. Monitoring the robustness of the internal control framework and financial management practices;
  - b. The integrity and appropriateness of internal and external reporting and accountability arrangements;
  - c. The robustness of risk management systems, processes and practices;
  - d. The independence and adequacy of external audit functions;
  - e. All year-end financial reporting obligations;
  - f. Compliance with applicable laws, regulations and standards, and best practice guidelines; and
  - g. The establishment and maintenance of controls to safeguard the Council's financial and non-financial assets.
- Discuss, with the external auditor, matters affecting the annual financial and non-financial statements and the annual audit.
- Monitor existing corporate policies and recommend new corporate policies to prohibit unethical, questionable or illegal activities.
- Support measures to improve management performance and internal controls.
- Ensure the quality of internal and external reports of financial and non-financial information.
- Develop policy relating to published financial statements and accounting standards of the Council.
- To review annual financial statements prior to Council adoption and ensure disclosures are in accordance with statutory requirements and consistent with best practice.
- Develop and monitor Annual Reports.

***The scope of this Committee includes:***

- Recommending the approval of the annual external audit proposal.
- Liaising with Council's external auditor:
  - a. at the start of each audit, confirm the terms of engagement with the external auditor including the nature and scope of the audit, timetable and fees;
  - b. approve the external audit engagement letter and letter of undertaking and any additional services to be provided by the external auditor;
  - c. receive the external audit report(s) and review action to be taken by management on significant issues and audit recommendations raised within;
  - d. conduct a members only session (i.e. without any management present) with external audit to discuss any matters that the auditors wish to bring to the committee's attention and/or any issues of independence;
  - e. meet with Council's audit direction on a quarterly basis
- Internal Control Framework:
  - a. review whether management's approach to maintaining an effective internal control framework is sound and effective;
  - b. review whether management has taken steps to embed a culture that is committed to probity and ethical behaviour;

- c. review whether there are appropriate systems, processes and controls in place to prevent, detect and effectively investigate fraud.
- External Reporting and Accountability:
  - a. agree the appropriateness of the Council's existing accounting policies and principles and any proposed change;
  - b. enquire of external auditors for any information that affects the quality and clarity of the Council's financial statements and statements of service performance, and assess whether appropriate action has been taken by management in response to the above;
  - c. satisfy itself that the financial statements and statements of service performance are supported by appropriate management signoff on the statements and on the adequacy of the systems of internal control (ie letters of representation), and recommend to Council the signing of the financial statements by the Chief Executive/Mayor and adoption of the Annual report.
- Overseeing the Council's systems, processes, and practices for risk management:
  - a. Ensure that management has in place a current and comprehensive risk management framework and associated procedures for effective identification and management of the Council's significant risks (including financial and non-financial risks);
  - b. consider whether appropriate action is being taken by management to mitigate Council's significant risks.
- Reviewing insurance arrangements annually.
- Monitoring insurance claims.
- Reviewing all audit reports of Council activities, including (but not limited to) building control authority audit reports, NZTA audit reports, Long Term Plan audit, and any other external audits.
- Preparing the Annual Report and carryovers.

<b>Membership</b>	The Audit and Risk Committee will be a standing committee of all Councillors and the Mayor. The Committee may appoint an additional person to the Committee where it considers that person has skills, attributes, or knowledge that will assist the work of the Committee.
<b>Quorum</b>	The quorum shall be four members.
<b>Chair</b>	The Chair will be nominated by the Mayor.
<b>Meetings</b>	The Audit and Risk Committee will meet on a quarterly basis or as required.

**6 PUBLIC EXCLUDED****RESOLUTION TO EXCLUDE THE PUBLIC****RECOMMENDATION**

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

The general subject matter of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter, and the specific grounds under section 48 of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution are as follows:

<b>General subject of each matter to be considered</b>	<b>Reason for passing this resolution in relation to each matter</b>	<b>Ground(s) under section 48 for the passing of this resolution</b>
<b>6.1 - Minutes of Public Excluded Audit and Risk Committee Meeting - 25 February 2020</b>	s7(2)(a) - the withholding of the information is necessary to protect the privacy of natural persons, including that of deceased natural persons  s7(2)(h) - the withholding of the information is necessary to enable Council to carry out, without prejudice or disadvantage, commercial activities	s48(1)(a)(i) - the public conduct of the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding would exist under section 6 or section 7
<b>6.2 - Risk Management Report</b>	s7(2)(c)(ii) - the withholding of the information is necessary to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely otherwise to damage the public interest	s48(1)(a)(i) - the public conduct of the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding would exist under section 6 or section 7