

I hereby give notice that an extraordinary meeting of the Audit and Risk Committee will be held on:

Date: Friday, 1 February 2019
Time: 9.30am
Meeting Room: Room 1, Level 26
Venue: 135 Albert Street
Auckland

Audit and Risk Committee

OPEN AGENDA

MEMBERSHIP

Chairperson	Sue Sheldon, CNZM
Deputy Chairperson	Deputy Mayor Cr Bill Cashmore
Members	Cr Ross Clow Paul Conder Cr Richard Hills Bruce Robertson
Ex-officio	Mayor Hon Phil Goff, CNZM, JP IMSB Chair David Taipari

(Quorum 3 members)

Quorum must include two Governing
Body members

Mike Giddey
Governance Advisor

29 January 2019

Contact Telephone: (09) 890 8143
Email: mike.giddey@aucklandcouncil.govt.nz
Website: www.aucklandcouncil.govt.nz

Terms of Reference

Purpose

The purpose of the Audit and Risk Committee is to assist and advise the Governing Body in discharging its responsibility and ownership of governance, risk management, and internal control.

The committee will review the effectiveness of the following aspects of governance, risk management and internal control:

- enterprise risk management (ERM) across the Auckland Council group
- internal and external audit and assurance
- integrity and investigations
- monitoring of compliance with laws and regulations
- significant projects and programmes of work focussing on the appropriate management of risk
- oversight of preparation of the LTP, Annual Report, and other external financial reports required by statute.

The scope of the committee includes the oversight of risk management and assurance across council's CCOs with respect to risk that is significant to the Auckland Council group.

To perform his or her role effectively, each committee member must develop and maintain his or her skills and knowledge, including an understanding of the committee's responsibilities, and of the council's business, operations and risks.

Decision-Making Powers

The committee has no decision making powers.

The committee may request expert advice through the chief executive where necessary.

The committee may make recommendations to the Governing Body and / or chief executive.

Tenure

External members will be appointed for an initial period not exceeding three years, after which they will be eligible for extension or re-appointment, after a formal review of their performance, and have not already served two terms on the committee. Councillors appointed to the committee will automatically cease to hold office at the time of the local authority triennial elections. They may be eligible for re-appointment post those elections if they are returned to office and have not already served two terms on the committee.

The chief executive, and the senior management team members will not be members of the committee.

The members, taken collectively, will have a broad range of skills and experience relevant to the operations of the council. At least one member of the committee should have accounting or related financial management experience, with an understanding of accounting and auditing standards in a public sector environment.

Committee's responsibilities

The committee's responsibilities are detailed below.

Forward Work Programme

The committee will agree and approve annually a forward work programme – which will consist of in depth briefings and reviews of specific significant risks and assurance strategies, as contained in the ERM “Top Risks” or Auckland Council’s work plan.

Risk management

- Review, approve and monitor the implementation of the ERM policy, framework and strategy (including risks pertaining to CCOs that are significant to the Auckland Council group).
- Review and approve the council’s “risk appetite” statement.
- Review the effectiveness of risk management and internal control systems including all material financial, operational, compliance and other material controls. This includes legislative compliance (including Health and Safety), significant projects and programmes of work, and significant procurement.
- Review risk management reports identifying new and / or emerging risks, and any subsequent changes to the ERM “Top Risk” register.

Internal Audit

- Review annually the Internal Audit Charter – which confirms the authority, independence and scope of the function.
- Review and approve annually and monitor the implementation of the 3 year Internal Audit Strategy and 12 month detailed Internal Audit Plan.
- Review the co-ordination between the risk and internal audit functions – including the integration of the council’s ERM risk profile with the Internal Audit programme. This includes assurance over all material financial, operational, compliance and other material controls. This includes legislative compliance (including Health and Safety), significant projects and programmes of work, and significant procurement.
- Review the reports of the Internal Audit functions dealing with findings, conclusions and recommendations (including assurance over risks pertaining to CCOs that are significant to the Auckland Council group)
- Review and monitor management’s responsiveness to the findings and recommendations – enquiring into the reasons that any recommendation is not acted upon.

Fraud and Integrity

- Review and approve annually, and monitor the implementation of, the Fraud and Integrity Strategy, including detailed work programme.
- Review annually the whistleblowing procedures and ensure that arrangements are in place by which staff, may, in confidence, raise concerns about possible improprieties in matters of financial reporting, financial control or any other matters, and that there is proportionate and independent investigation of such matters and appropriate follow-up action.
- Review the procedures in relation to the prevention, detection, reporting and investigation of bribery and fraud.
- Review and monitor policy and process to manage conflicts of interest amongst elected members, local board members, management, staff, consultants and contractors.

- Review reports from the Risk, Internal Audit, Integrity and Investigations, external audit and management related to whistle blower, ethics, bribery and fraud related incidents.

Statutory Reporting

Review and monitor the integrity of the interim and annual report including statutory financial statements and any other formal announcements relating to the council's financial performance, focussing particularly on:

- compliance with, and the appropriate application of, relevant accounting policies, practices and accounting standards
- compliance with applicable legal requirements relevant to statutory reporting
- the consistency of application of accounting policies, across reporting periods, and the Auckland Council group
- changes to accounting policies and practices that may affect the way that accounts are presented
- any decisions involving significant judgement, estimation or uncertainty
- the extent to which financial statements are affected by any unusual transactions and the manner in which they are disclosed
- the disclosure of contingent liabilities and contingent assets
- the clarity of disclosures generally
- the basis for the adoption of the going concern assumption
- significant adjustments resulting from the audit.

External Audit

- Discuss with the external auditor before the audit commences:
 - the nature and scope of the external audit
 - areas of audit focus
 - error and materiality levels.
- Review with the external auditors representations required by elected members and senior management, including representations as to the fraud and integrity control environment.
- Review the external auditors management letter and management responses, and inquire into reasons for any recommendations not acted upon.
- Where required, the chair may ask a senior representative of the Office of the Auditor General to attend the committee meetings to discuss the office's plans, findings and other matters of mutual interest.

Interaction with Council Controlled Organisations

Other committees dealing with CCO matters may refer matters to the Audit and Risk Committee for review and advice.

This committee will enquire to ensure adequate processes at a governance level exist to identify and manage risks within a CCO. Where an identified risk may impact on Auckland Council or the wider group, the committee will also ensure that all affected entities are aware of and appropriately managing the risk.

The Head of Risk and Head of Internal Audit are responsible for the provision of quality risk, assurance, insurance and ethics and integrity services for all CCOs except Auckland Transport and Watercare (with the exception of insurance services which are provided to Auckland Transport). Auckland Transport and Watercare have their own risk and assurance functions. The Head of Risk and Head of Internal Audit are responsible for monitoring CCO risk and internal audit strategies with respect to risks that are significant to the Auckland Council group.

Annual Report on the work of the committee

The chair of the committee will submit a written review of the performance of the committee to the chief executive on an annual basis. The review will summarise the activities of the committee and how it has contributed to the council's governance and strategic objectives. The chief executive will place the report on the next available agenda of the governing body.

Exclusion of the public – who needs to leave the meeting

Members of the public

All members of the public must leave the meeting when the public are excluded unless a resolution is passed permitting a person to remain because their knowledge will assist the meeting.

Those who are not members of the public

General principles

- Access to confidential information is managed on a “need to know” basis where access to the information is required in order for a person to perform their role.
- Those who are not members of the meeting (see list below) must leave unless it is necessary for them to remain and hear the debate in order to perform their role.
- Those who need to be present for one confidential item can remain only for that item and must leave the room for any other confidential items.
- In any case of doubt, the ruling of the chairperson is final.

Members of the meeting

- The members of the meeting remain (all Governing Body members if the meeting is a Governing Body meeting; all members of the committee if the meeting is a committee meeting).
- However, standing orders require that a councillor who has a pecuniary conflict of interest leave the room.
- All councillors have the right to attend any meeting of a committee and councillors who are not members of a committee may remain, subject to any limitations in standing orders.

Independent Māori Statutory Board

- Members of the Independent Māori Statutory Board who are appointed members of the committee remain.
- Independent Māori Statutory Board members and staff remain if this is necessary in order for them to perform their role.

Staff

- All staff supporting the meeting (administrative, senior management) remain.
- Other staff who need to because of their role may remain.

Local Board members

- Local Board members who need to hear the matter being discussed in order to perform their role may remain. This will usually be if the matter affects, or is relevant to, a particular Local Board area.

Council Controlled Organisations

- Representatives of a Council Controlled Organisation can remain only if required to for discussion of a matter relevant to the Council Controlled Organisation.

ITEM	TABLE OF CONTENTS	PAGE
1	Apologies	11
2	Declaration of Interest	11
3	Petitions	11
4	Public Input	11
5	Local Board Input	11
6	Extraordinary Business	11
7	Potential Long-term Plan Amendment Consultation Document - risk and control update	13
8	Consideration of Extraordinary Items	
PUBLIC EXCLUDED		
9	Procedural Motion to Exclude the Public	19
C1	Office of the Auditor-General and Audit New Zealand briefing	19

1 Apologies

Apologies from Cr R Clow, B Robertson and Mayor P Goff have been received.

2 Declaration of Interest

Members are reminded of the need to be vigilant to stand aside from decision making when a conflict arises between their role as a member and any private or other external interest they might have.

3 Petitions

There is no petition section.

4 Public Input

There is no public input section.

5 Local Board Input

There is no local board input section.

6 Extraordinary Business

Section 46A(7) of the Local Government Official Information and Meetings Act 1987 (as amended) states:

“An item that is not on the agenda for a meeting may be dealt with at that meeting if-

- (a) The local authority by resolution so decides; and
- (b) The presiding member explains at the meeting, at a time when it is open to the public,-
 - (i) The reason why the item is not on the agenda; and
 - (ii) The reason why the discussion of the item cannot be delayed until a subsequent meeting.”

Section 46A(7A) of the Local Government Official Information and Meetings Act 1987 (as amended) states:

“Where an item is not on the agenda for a meeting,-

- (a) That item may be discussed at that meeting if-
 - (i) That item is a minor matter relating to the general business of the local authority; and
 - (ii) the presiding member explains at the beginning of the meeting, at a time when it is open to the public, that the item will be discussed at the meeting; but
- (b) no resolution, decision or recommendation may be made in respect of that item except to refer that item to a subsequent meeting of the local authority for further discussion.”

Potential Long-term Plan Amendment Consultation Document - risk and control update

File No.: CP2019/00200

Te take mō te pūrongo Purpose of the report

- To support the committee in its role of reviewing the effectiveness of governance over risks and design and operation of internal controls over the preparation of the potential long-term plan amendment consultation document and other consultation material.

Whakarāpopototanga matua Executive summary

- This report provides a status update on key controls employed and management of significant risks related to the development of a potential long-term plan amendment consultation document, and consultation material which relates to the potential transfer of the ownership of strategic land within the Auckland Council group.
- All key control activities have now been completed. The following table summarises the key control activities related to the preparation of the consultation material.

Area	Key control activities
Project oversight	<ul style="list-style-type: none"> Annual Budget control group
Project planning	<ul style="list-style-type: none"> Approved project execution plan
Financial information	<ul style="list-style-type: none"> Financial control review of accounting treatment and financials Financial forecasts based on audited information
Governance information	<ul style="list-style-type: none"> Staff from council's Council-Controlled Organisation Governance department are involved in the preparation of the Consultation Document and advice to the Finance and Performance committee on governance matters
Legal issues	<ul style="list-style-type: none"> Review and sign-off of documentation by legal team
Taxation implications	<ul style="list-style-type: none"> External advice from PwC

- The following table summarises the key risks related to the preparation of the consultation material and how these are being addressed

Key risk	Addressed by:
Failure to comply with legislative consultation requirements	<ul style="list-style-type: none"> Review and sign-off by legal team
Binding ruling not achieved	<ul style="list-style-type: none"> Working closely with Inland Revenue Assistance with process from PwC
Difficulty with legal transfers	<ul style="list-style-type: none"> Thorough legal due diligence upfront
Issues raised by third parties	<ul style="list-style-type: none"> Targeted engagement with key groups such as mana whenua and Westhaven berth holders
Risks to project timelines	<ul style="list-style-type: none"> Mitigated through good project management with an approved project plan and dedicated project manager. Delivery against milestone disciplines is monitored and reported to the business owner and Annual Budget Project Control Group

Ngā tūtohunga Recommendation/s

That the Audit and Risk Committee:

- a) receive the report on the key controls and risks relating to the potential Long-term Plan Amendment Consultation Document
- b) advise the Governing Body that effective internal control and risk management processes have been followed during the preparation of the Consultation Document and supporting information
- c) advise the Governing Body that there are no outstanding audit issues.

Horopaki Context

5. Staff presented to the Audit and Risk committee's meeting on 5 December 2018 on the background to this potential long-term plan amendment and the respective roles of the Governing Body and the Audit and Risk Committee in a long-term plan amendment.
6. A paper was presented to the Finance and Performance Committee on 12 December 2018, but a decision was delayed, to a meeting to be held on 13 February 2019, on whether to proceed with consultation on a long-term plan amendment.
7. The resolutions made on 12 December 2018 were:
 - a) approve the preparation of consultation material to publicly consult on whether the legal ownership of some or all of the land held by Panuku Development Auckland Limited should be transferred to Auckland Council.
 - b) agree that the consultation material be brought back to the Finance and Performance Committee in February with the Annual Budget consultation document, for a final decision on whether to publicly consult on any proposal.
8. Staff have prepared the required consultation materials and a decision is scheduled to be made on 13 February 2019 on whether the council proceeds with consultation on the amendment and these materials are adopted.

Tātaritanga me ngā tohutohu Analysis and advice

9. The following paragraphs detail the status of key controls identified to be critical to ensure that:
 - a) Long-term Plan amendment processes are robust
 - b) information contained in the Long-term Plan Amendment, including the necessary Consultation Document and supporting information, is materially complete and reliable
 - c) any risks associated with the potential Long-term Plan Amendment are minimised
 - d) the potential Long-term Plan Amendment meets the requirements of the Local Government Act 2002, and the Local Government (Auckland Council) Act 2009.

Project oversight

10. Oversight of the project is undertaken by the Annual Budget Project Control Group. This group is chaired by the Group Chief Financial Officer and includes representation from the Governance Division management, the Risk Team, the Citizen Engagement and Insights Department, the Financial Strategy and Planning Department, and the Office of the Mayor.

Project planning

11. A project execution plan has been prepared and approved by the General Manager Financial Strategy and Planning as business owner and the Group CFO as project sponsor.
12. The project plan includes a detailed timeline and key milestones. Delivery against these milestones is monitored and reported to the General Manager Financial Strategy and Planning, and to the Annual Budget Project Control Group.
13. A communications and engagement approach for the potential long-term plan amendment is captured within the Annual Budget communications and engagement plan. This describes how the Auckland Council intends to engage and communicate with both internal and external stakeholders in the development of the long-term plan amendment.
14. This plan will include targeted engagement with groups that have a particular interest in the issue including mana whenua and Westhaven berth holders. Engagement with these key groups will address any risk of issues being raised with the amendment at later stages.

Financial information

15. All financial information prepared for the potential amendment, and included within the consultation material, is based on previously audited information. This includes information from the Auckland Council 10-year Budget 2018-2028, the Auckland Council Group Annual Report 2017/2018, and the Panuku Annual Report 2017/2018.
16. The projected changes to both financial position and budgets have been reviewed by the Financial Control team to confirm that accounting treatment aligns with IPSAS requirements, and that calculations are accurate.

Governance information

17. Staff from council's Council-Controlled Organisation Governance department are involved in the preparation of the Consultation Document and advice to the Finance and Performance committee on governance matters. Advice on these matters will be provided to the Finance and Performance committee at workshops prior to final decisions made by the Finance and Performance committee in May 2019.

Legal issues

18. All consultation materials have been reviewed, and signed off, by the council's internal Public Law team to confirm that they comply with the requirements of the necessary legislation.
19. The council's Property and Commercial Law team have been involved in the project from the outset. This team have conducted a thorough due diligence review of the necessary legal transfers to execute the transactions included in the long-term plan amendment.
20. External legal advice has also been sought to support this process and to identify any legal issues arising out of these documents prior to the final legal sign off.
21. Final legal sign-off by Dani Gardiner, Acting General Counsel Legal and Risk will be obtained by 30 January 2019. That legal sign-off will be updated in relation to any changes made to the consultation materials after that date as needed.

Taxation implications

22. External advice has been obtained from PwC on the taxation implications of the amendment. This has included review of the consultation material.
23. A premise of the potential long-term plan amendment is that its successful execution would require a binding ruling from Inland Revenue on the taxation treatment of the transactions. The risk of this not occurring is being addressed through early engagement with Inland Revenue and assistance with the process from experts at PwC.

Quality assurance

24. A quality assurance review of the draft consultation document was performed by staff across the Council Entity and Panuku including:
- Group Chief Financial Officer
 - Director Corporate Services – Panuku Development Auckland
 - General Manager Financial Strategy and Planning
 - General Manager Corporate Finance and Property
 - Manager CCO/External Partnerships
 - Group Financial Controller
 - Manger Property and Commercial Law
 - Head of Group Financial Planning
 - Manager Financial Strategy
 - Manager Group Accounting and Reporting
 - Senior Solicitor Public Law
 - Team Leader Taxation
 - Policy Project Manager Independent Maori Statutory Board
 - Principal Advisor Risk

Ngā whakaaweawe me ngā tirohanga a te rōpū Kaunihera Council group impacts and views

25. The impacts of the potential long-term plan amendment would be on the council parent entity and Panuku Development Auckland. Representatives of both entities have been involved in the project and the preparation of this report.

Ngā whakaaweawe ā-rohe me ngā tirohanga a te poari ā-rohe Local impacts and local board views

26. There is no impact on local boards on the decision this committee is being asked to make.
27. The views of local boards have not been sought in relation to this report.

Tauākī whakaaweawe Māori Māori impact statement

28. While the potential long-term plan amendment will be of interest to Māori there is no impact on Māori arising from the decision this committee is being asked to make.

Ngā ritenga ā-pūtea Financial implications

29. While the potential long-term plan amendment does have financial implications for the Auckland Council, including in its implementation, this report does not require the committee to make decisions with financial implications.

Ngā raru tūpono me ngā whakamaurutanga Risks and mitigations

30. Key risks associated with the potential long-term plan amendment are discussed in the executive summary section of this report.

Ngā koringa ā-muri

Next steps

31. Following the presentation of this report, the Office of the Auditor-General and Audit New Zealand will present their status report on audit matters.
32. The council will make a decision whether to proceed with a long-term plan amendment and adopt consultation materials on 13 February 2019.

Ngā tāpirihanga

Attachments

There are no attachments for this report.

Ngā kaihaina

Signatories

Authors	Michael Burns - Manager Financial Strategy Ross Tucker - Acting General Manager, Financial Strategy and Planning
Authorisers	Matthew Walker - Group Chief Financial Officer Phil Wilson - Governance Director

Exclusion of the Public: Local Government Official Information and Meetings Act 1987

That the Audit and Risk Committee

- a) exclude the public from the following part(s) of the proceedings of this meeting.

The general subject of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter, and the specific grounds under section 48(1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution follows.

This resolution is made in reliance on section 48(1)(a) of the Local Government Official Information and Meetings Act 1987 and the particular interest or interests protected by section 6 or section 7 of that Act which would be prejudiced by the holding of the whole or relevant part of the proceedings of the meeting in public, as follows:

C1 Office of the Auditor-General and Audit New Zealand briefing

Reason for passing this resolution in relation to each matter	Particular interest(s) protected (where applicable)	Ground(s) under section 48(1) for the passing of this resolution
The public conduct of the part of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists under section 7.	s7(2)(h) - The withholding of the information is necessary to enable the local authority to carry out, without prejudice or disadvantage, commercial activities. In particular, the report contains information regarding progress on the audit of the Long-term Plan amendment which is still ongoing.	s48(1)(a) The public conduct of the part of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists under section 7.