

AGENDA/KAUPAPA



P O Box 747, Gisborne, Ph 06 867 2049 Fax 06 867 8076
Email service@gdc.govt.nz Web www.gdc.govt.nz

MEMBERSHIP: Bruce Robertson (Independent Chair), Her Worship the Mayor Rehette Stoltz, Colin Alder, Andy Cranston, Tony Robinson, Rob Telfer and Josh Wharehinga

AUDIT & RISK/ĀRAI TŪRARU ME TE TĀTARI KAUTE Committee

DATE: Wednesday 13 March 2024

TIME: 9:00AM

AT: Te Ruma Kaunihera (Council Meeting Room), Awarua, Fitzherbert Street, Gisborne

AGENDA – OPEN SECTION

- 1. Apologies.....4
- 2. Declarations of Interest4
- 3. Confirmation of non-confidential Minutes4
 - 3.1. Confirmation of non-confidential Minutes 28 November 20235
 - 3.2. Action Sheet12
 - 3.3. Governance Work Plan.....13
- 4. Leave of Absence14
- 5. Acknowledgements and Tributes.....14
- 6. Public Input and Petitions14
- 7. Extraordinary Business.....14
- 8. Notices of Motion14
- 9. Adjourned Business.....14
- 10. Reports of the Chief Executive and Staff for DECISION15
 - 10.1. **24-44** Internal Audit Plan Update15

11. Reports of the Chief Executive and Staff for INFORMATION30

 11.2. **24-47** Council Strategic Risk Report30

 11.3. **24-51** Health & Safety41

 11.4. **24-58** 2024 - 2027 Three Year Plan Update53

 11.5. **24-63** Insurance Strategy Update70

 11.6. **24-71** Ernst Young 2023-24 Audit Plan78

12. Public Excluded Business.....101

Audit & Risk

Reports to:	Council
Chairperson:	Independent Chairperson Bruce Robertson
Membership:	Mayor Rehette Stoltz, Deputy Mayor Josh Wharehinga, Cr Colin Alder, Cr Andy Cranston, Cr Tony Robinson and Cr Rob Telfer
Quorum:	Half of the members when the number is even and a majority when the membership is uneven.
Meeting frequency:	Quarterly (or as required)

Purpose

To assist the Council to exercise due care, diligence and skill in relation to the oversight of:

- the robustness of the internal control framework;
- the integrity and appropriateness of external reporting, and accountability arrangements within the organisation for these functions;
- the robustness of risk management systems, process and practices;
- internal and external audit;
- accounting practice and, where relevant, accounting policy;
- health, safety and wellbeing;¹
- compliance with applicable laws, regulations, standards and best practice guidelines for public entities; and
- the establishment and maintenance of controls to safeguard the Council's financial and non-financial assets.

The Audit & Risk Committee Chair is responsible for submitting an annual report to the Council covering the Committee's operations and activities during the preceding year.

Terms of Reference

Internal Control Framework

- Consider the adequacy and effectiveness of internal controls and the internal control framework including overseeing privacy and cyber security.
- Enquire as to the steps management has taken to embed a culture that is committed to probity and ethical behaviour.
- Review the processes or systems in place to capture and effectively investigate fraud or material litigation, should it be required.

¹ In regard to health and safety, all Councillors are required to discharge their responsibilities of due diligence under the Health and Safety at Work Act 2015. Staff will provide regular reports to Council to enable members to discharge their duties, and these reports will include any recommendations made by the Audit and Risk Committee in relation to council's health, safety and wellbeing processes.

- Seek confirmation annually, and as necessary, from internal and external auditors, attending Councillors, and management, regarding the completeness, quality and appropriateness of financial and operational information that is provided to the Council.

Risk Management

- Review and consider Management's risk management framework in line with Council's risk appetite – which includes policies and procedures to effectively identify, treat and monitor significant risks, and regular reporting to the Council.
- Assist the Council to determine its appetite for risk.
- Review the principal risks that are determined by Council and Management and consider whether appropriate action is being taken by Management to treat Council's significant risks. Assess the effectiveness of, and monitor compliance with, the risk management framework. Consider emerging significant risks and report these to Council, where appropriate.

Internal Audit

- Review and recommend the annual internal audit plan; such plan to be based on the Council's risk framework.
- Monitor performance against the plan at each regular quarterly meeting.
- Monitor all internal audit reports and the adequacy of Management's response to internal audit recommendations.
- Monitor compliance with the Delegations Manual.

External Audit

- Annually review the independence and confirm the terms of the audit engagement with the external auditor appointed by the Office of the Auditor General. This includes the adequacy of the nature and scope of the audit, and the timetable and fees.
- Review all external audit reporting, discuss with the auditors and review action to be taken by management on significant issues and recommendations and report to Council as appropriate.

Compliance with Legislation, Standards and Best Practice Guidelines

- Review the effectiveness of the system for monitoring the Council's compliance with laws (including governance legislation, regulations and associated government policies), with Council's own standards, and Best Practice Guidelines.

Powers

The Audit and Risk Committee, within the scope of its role and responsibilities, is authorised to:

- obtain any information it needs from any employee and/or external party (subject to their legal obligation to protect information);
- discuss any matters with the external auditor, or other external parties (subject to confidentiality considerations);
- make recommendations to Council and/or the Chief Executive.

The Audit and Risk Committee has no executive powers and is directly responsible to Council.

3.1. Confirmation of non-confidential Minutes 28 November 2023

MINUTES

Draft & Unconfirmed



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MEMBERSHIP: Bruce Robertson (Independent Chair), Her Worship the Mayor Rehette Stoltz, Colin Alder, Andy Cranston, Tony Robinson, Rob Telfer and Josh Wharehinga

MINUTES of the AUDIT & RISK / ĀRAI TŪRARU ME TE TĀTARI KAUTE Committee

Held in Te Ruma Kaunihera (Council Meeting Room), Awarua, Fitzherbert Street, Gisborne on Tuesday 28 November 2023 at 9:00AM.

PRESENT:

Bruce Robertson (Independent Chair), Her Worship the Mayor Rehette Stoltz, Colin Alder, Andy Cranston, Rob Telfer and Josh Wharehinga.

IN ATTENDANCE:

Chief Executive Nedine Thatcher Swann, Director Lifelines Tim Barry, Director Internal Partnerships & Protection James Baty, Director Engagement & Maori Partnerships Anita Reedy-Holthausen, Chief Financial Officer Pauline Foreman, Debbie Gregory, ani Pahuru-Huriwai, Rhonda Tibble, Aubrey Ria, Risk & Performance Manager Steve Breen, Health, Safety & Wellbeing Manager David Wilkinson, Senior Legal Counsel Jacinta Bowe, Senior Procurement Advisor Andrew Haughey, Democracy & Support Services Manager Heather Kohn and Committee Secretary Ariana Albert.

Secretarial Note: Maori Responsiveness Manager Gene Takurua and Cr Pahuru-Huriwai attended the meeting via audio-visual link.

The meeting commenced with a karakia.

1. Apologies

MOVED by Cr Stoltz, seconded by Cr Telfer

That the apologies from Cr Robinson be sustained.

CARRIED

2. Declarations of Interest

Cr Wharehinga declared an interest in report 23-299 GHL Strategic Risks Updates as a Director of Gisborne Holdings Limited.

Cr Stoltz declared an interest in report 23-304 Litigation Risk and Legal Issues as she is the neighbour of one of the plaintiffs.

3. Confirmation of non-confidential Minutes

3.1 Confirmation of non-confidential Minutes 4 October 2023

MOVED by Bruce Robertson, seconded by Cr Wharehinga

That the Minutes of 4 October 2023 be accepted.

CARRIED

- In relation to 23-218 Internal Audit Update, the assessment of productivity is expected to be completed before Christmas.

3.2 Action Sheet

Action sheet noted.

4. Leave of Absence

There were no leaves of absence.

5. Acknowledgements and Tributes

There were no acknowledgements or tributes.

6. Public Input and Petitions

There was no public input or petitions.

7. Extraordinary Business

There was no extraordinary business.

8. Notices of Motion

There were no notices of motion.

9. Adjourned Business

There was no adjourned business.

10. Reports of the Chief Executive and Staff for DECISION

10.1 23-251 Tax Governance Strategy Framework

Chief Financial Officer Pauline Foreman attended the meeting to provide insight and updates on the tax governance framework.

Questions of clarification included:

- As GHL is responsible for managing its internal processes, any concerns surpassing a predefined tax threshold would require notification to Council for further reporting.
- Tax compliance reviews are typically scheduled in rotation with other assessments, including Fringe Benefit Tax (FBT) and Pay as You Earn (PAYE). Each year, different sections are subject to review within this rotation to ensure that comprehensive assessments are conducted on a regular and recurring basis.
- The Council's tax position is usually depicted in the Annual Report, in turn reflecting GHL's tax position; so conducting routine reviews within tax compliance is a crucial practice to uphold the integrity of Council records.
- A PwC recommendation indicates that policies should be managed at a group level rather than relying on a Council Controlled Trading Organisation (CCTO). To minimize risk, best practice is for Council to closely align itself with GHL, particularly for tax matters, to mitigate potential risks and ensure the financial framework is secure.

MOVED by Cr Stoltz, seconded by Cr Telfer

That the Audit & Risk/Ārai Tūraru me te Tātari Kaute Committee:

1. Recommends that Council:
 - a. Approves and adopts the Draft Tax Risk Governance Framework.
 - b. Approves that the Draft Tax Risk Governance Framework is set at the Group level including both Council and Council Controlled Trading Organisation, namely Gisborne Holdings Ltd.

CARRIED

10.2 23-300 Audit and Risk Three Year Programme

Chief Financial Officer Pauline Foreman provided a breakdown on the Audit & Risk three-year programme and answered questions of clarification including:

- Reviews of changes and emerging risks are conducted every two years to ensure that the Council's risk profile aligns with its strategic goals. Effective risk management is crucial to mitigate anything that could stop Council from achieving its goals. There was suggestion that a written off-cycle check be presented at the next Audit and Risk meeting.
- Notes that the Outstanding Management Report Matters be shifted from an annual report to a monthly report.

MOVED by Cr Wharehinga, seconded by Cr Stoltz

That the Audit & Risk/Ārai Tūraru me te Tātari Kaute Committee:

1. Recommends that Council:
 - a. Approves the Draft Three Year Programme for Audit and Risk

CARRIED

10.3 23-235 Council's Strategic Risk Management Report

Risk & Performance Manager Steve Breen attended the meeting and spoke to the report with the intention of being able to finalize the recovery risk bowtie and form the foundation for reporting risk assessments to future committee meetings.

Questions of clarification included:

- The risk bowtie has been established with staff aiming to finalize what will form the basis of reporting recovery risks to future committee meetings.
- Council strives to ensure that its risk assessment and management framework aligns as closely as possible with its operational environment. Should this prove to be ineffective, the system is adjusted so it is fit for purpose. The system's effectiveness hinges on Council's risk consequence matrix, which includes nine categories along with their respective thresholds. When a risk surpasses its threshold, that determines its severity classification, whether it is considered minor, moderate, major, or serious.
- The classification of people & capability risk and procurement risks have been workshopped for the purpose of discussing and evaluating alignment with Council's risk appetite. There has been substantial effort in strengthening underlying controls, notably through increased participation in procurement courses by staff. The scope of these efforts has expanded significantly across the organization. This is an ongoing process that involves periodic reviews based on the effectiveness of the underlying controls.
- Councillors are entitled to access information concerning staff movements. The Council has highlighted these movements against its risk appetite and has established a system encompassing risk assessments, solutions, and reduction measures.
- Staff have assessed the different aspects of staff retention, recruitment, and various strategies to navigate risks associated with staff-related issues. Report 23-167, presented during the 4 October 2023 Audit & Risk meeting highlighted that the increased risk reflects a turnover rate of 19.1%, classifying within the 'Major' appetite threshold of 17-25%. The rise in staff movements, particularly individuals relocating outside the region and country, is contributing to this outcome. The Council anticipates a continued fluctuation between 'Minor' and 'Major' within the people and capability category for an extended period. In response, Council initiated a risk mitigation intervention based on common themes identified through exit interviews. A conscious decision was made to address factors contributing to staff exits, ensuring ongoing efforts to minimize associated risks and maintain productivity in this area.
- Staff take a similar approach for procurement in terms of processes that are followed, wherein the values of the contracts being placed to market, trigger different types of procurement processes. From a strategic level we check the systems work. There are situations, on an individual level, where the system may not be followed as prescribed, and this is the responsibility on the Risk Management Team to support other Managers within the organisation to follow best practice. With the specific situation, the Risk Management Team will analyze and understand the process that was undertaken and test that against the structure and criteria that was used to determine that good practice was followed and if it has not, understand why and change the process so it doesn't happen again.

- The link between asset management and the risk to Council infrastructure is closely tied to recovery actions. When characteristics of risk actions and their corresponding mitigations are broken down the four identified risks are interconnected and is why the emphasis within the report is predominantly focused on recovery efforts, as it serves as the place-card for determining the outcomes of all other risks. Council's biggest challenge is the natural environment and what is outside of its control. Council's actions around the impact to our natural environment is being led by recovery actions and will mostly remain the same for the next year or so.

MOVED by Cr Cranston, seconded by Cr Wharehinga

That the Audit & Risk/Ārai Tūraru me te Tātari Kaute Committee:

1. Recommends that the Council:
 - a. Approves the adoption of the Risk Management Policy (Attachment 1).

CARRIED

11. Reports of the Chief Executive and Staff for INFORMATION

11.1 23-261 Insurance Renewal 2023/2024

Chief Financial Officer Pauline Foreman and Senior Procurement Advisor Andrew Haughey provided an update on Council's insurance renewals and the costs associated with policy adoption, outlining where these expenses are reflected within Council.

Questions of clarification included:

- Council's insured assets total over one billion dollars. As part of the insurance renewal process, Council assets increased another \$150 million through additions such as the Wastewater Plant and Kiwa Pools. These increases, although contributing to Council asset growth, impact Council's insurance premiums.
- Notes that it is becoming increasingly difficult to secure insurance for forestry assets.
- All BOPLASS (Bay of Plenty Local Authority Shared Services) councils experienced a 28% increase in their underground assets. Additionally, due to all the severe weather events the cost of premiums and insurance is increasing, resulting in a combined impact of 32%. The primary reason for these increases in insurance and premiums, is the influence of reinsurance on the national market.
- Notes to explore third party insurance on Council's motor bikes and other low value vehicles categorized as "assets not insured" and report back to the Audit & Risk Committee.
- Living assets such as beaches and rivers, due to their dynamic nature, cannot be insured. The inherent challenges in quantifying and managing risks associated with these assets make insurance impractical.

- Insurance for the manuka plantation at Waingake serves the purpose of mitigating two potential risks: planting incidents and the threat of forestry fires that could impact neighboring properties. Insurance over the plant proactively manages and reduces the risks associated with the Waingake plant, providing coverage for unforeseen events, and enhancing overall risk mitigation efforts.
- The Harbormaster's liability is Councils' responsibility and through obtaining insurance cover, allows Council to proactively mitigate potential risks.
- Council is actively engaging with BOPLASS who are connecting with councils nationwide, to explore strategies for limiting potential increases in insurance rates. Notes for staff to present the proposed insurance strategy, even if it falls outside the regular review cycle, to the Committee for evaluation once the collaborative work with BOPLASS has been completed.

MOVED by Bruce Robertson, seconded by Cr Stoltz

That the Audit & Risk/Ārai Tūraru me te Tātari Kaute Committee:

1. Notes the contents of this report.

CARRIED

Secretarial Note: The meeting adjourned for morning tea at 10:00am and reconvened at 10:15am.

11.2 23-281 Health, Safety & Wellbeing

Health & Safety Manager David Wilkinson attended the meeting and answered questions of clarification:

- The major focus continues to revolve around contractor management, recovery work and staff wellbeing. Council is actively encouraging staff to keep on top of reporting any work-related incidents/ accidents.
- Much of the emergency-based work involves Waka Kotahi and national roading. Council collaborates closely with Waka Kotahi to ensure overlapping duties are conducted safely. While Council has no control over contractors employed by Waka Kotahi, Council approved contractors are required to undertake a health & safety assessment and pass the Council pre-qualification systems SHE Assure & Tōtika.
- Notes that typically there is an increase in workplace accidents towards the end of the year and despite the usual trend, Gisborne's statistics do not show an increase in events during the November, December, and January period. This is attributed to having established processes to follow up on contractors' health & safety work practices.

- Regular provisional health and safety training is conducted to address the risk associated with the high turnover of staff. The concern is that frequent staff changes may lead to employees being unaware of available safety resources. However, Council manages this risk through routine, comprehensive safety inductions, held when staff start. Additionally, Managers play a crucial role in assisting new staff in identifying risks and understanding how they are managed. Ongoing training and refreshers are part of Council's strategy to continually address and mitigate risks.
- Council's LTI's (lost time injuries) statistics are tracking below the national standard.

MOVED by Cr Alder, seconded by Cr Telfer

That the Audit & Risk/Ārai Tūraru me te Tātari Kaute Committee:

1. Notes the contents of this report.

CARRIED

12. Public Excluded Business

Secretarial Note: These Minutes include a public excluded section. They have been separated for receipt in Section 12 Public Excluded Business of Council.

13. READMITTANCE OF THE PUBLIC

MOVED by Cr Stoltz, seconded by Cr Cranston

That the Audit & Risk Committee:

1. Re-admits the public.

CARRIED

14. Close of Meeting

There being no further business, the meeting concluded at 1:25pm.

Bruce Robertson

INDEPENDENT CHAIR

3.2. Action Sheet

Meeting Date	Item No.	Item	Status	Action Required	Assignee/s	Action Taken	Due Date
17/05/2023	10.1	23-70 Council's Strategic Risk Management Report	In progress	Provide the Committee with the updated status of our internal audit programme and assurance at the meeting on 20 September 2023.	Melanie Hartung, Steve Breen	19/09/2023 Melanie Hartung Internal Audit Report targeted for early 2024.	31/03/2024

3.3. Governance Work Plan

2024 Audit & Risk						Meeting Dates			
HUB	Activity	Name of agenda item	Purpose	Report type	Owner	13-Mar	12-Jun	9-Oct	4-Dec
Finance & Affordability	Risk & Performance	Strategic Risk update	Updates on Council's Strategic Risks	Information (I)	Steve Breen	X	X	X	X
Internal Partnerships	Home Safe	Health, Safety & Wellbeing	Provide updates on critical health, safety, and wellbeing risks, along with controls to mitigate these risks, across all GDC workplaces.	Information (I)	David Wilkinson	X	X	X	X
Internal Partnerships	Legal	Litigation Risk & Legal Issues	Provide an overview of Council's current litigation matters.	Information (I)	Jacinta Bowe	X	X	X	X
Sustainable Futures	Building Services	Outcome of IANZ audit of Building Consent Authority accreditation	To provide an overview of the key findings and recommendations arising from the IANZ audit of the building services function and actions taken	Information (I)	Ian Petty		X		
Finance & Affordability	Risk & Performance	Council's Strategic risk management report	Provide an update to Council on strategic risks and how these are being managed	Decision (D)	Daniel Haverly	X			

Finance & Affordability	Risk & Performance	Insurance Update	To provide an update on Councils Insurance Renewal	Information (I)	Andrew Haughey	x				
Finance & Affordability	Risk & Performance	Strategic Risk Deep Dive	To inform A&R of the strategic risk deep dive session	Public Excluded (I)	Daniel Haverty	x	x			
Finance & Affordability	Risk & Performance	Council's Strategic risk management report	Provide an update to Council on strategic risks and how these are being managed	Decision (D)	Daniel Haverty		x			

10. Reports of the Chief Executive and Staff for DECISION



24-44

Title: 24-44 Internal Audit Plan Update
Section: Finance & Affordability
Prepared by: Tina Swann - Internal Audit Partner
Meeting Date: Wednesday 13 March 2024

Legal: Yes

Financial: Yes

Significance: **Low**

Report to AUDIT & RISK/ĀRAI TŪRARU ME TE TĀTARI KAUTE Committee for decision

PURPOSE - TE TAKE

The purpose of this report is to provide an update on progress towards an Internal Audit Plan and to seek approval of an amended Internal Audit Charter.

The proposed delivery of an Internal Audit Plan will provide the Audit & Risk Committee (ARC) with assurance over its risk management and internal control environment.

SUMMARY – HE WHAKARĀPOPOTOTANGA

The purpose of this Internal Audit Plan is to provide ARC with a balanced, risk-based approach to internal auditing, over the next three years. The plan covers a variety of audits over several different areas of Council, noting where outsourcing is required for specialist or technical knowledge.

To complement this plan, the Internal Audit Charter has been reviewed and updated to reflect name changes, staff changes and to incorporate an additional scope for audits outsourced to specialist consultants.

The decisions or matters in this report are considered to be of **Low** significance in accordance with the Council's Significance and Engagement Policy.

RECOMMENDATIONS - NGĀ TŪTOHUNGA

That the Audit & Risk/Ārai Tūraru me te Tātari Kaute Committee:

- 1. Approves:**
 - a. The amended Internal Audit Charter; and**
 - b. The draft Internal Audit Plan.**

Authorised by:

Pauline Foreman - Chief Financial Officer

Keywords: internal audit, internal audit charter

BACKGROUND - HE WHAKAMĀRAMA

1. Internal Audit is an independent and objective assurance, consulting, and advisory service (either through in-house or external resourcing) which aims to assist the organisation to accomplish its objectives. This is done by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control, and governance processes.
2. Previously, Council has conducted internal audits on an ad hoc case-by-case basis and the demand for an internal audit function has often exceeded available resources.
3. The scope of the internal audit plan has been outlined in the Internal Audit Charter. This draft plan aligns with the scope and will deliver a mix of evaluation, assurance and improvement advice that appropriately encompasses the following:
 - a. Reliability, timeliness and integrity of financial and operating information, and the processes used to identify, measure, and report such information.
 - b. Systems established to ensure compliance with policies, plans, procedures, laws, and regulations.
 - c. Means of safeguarding assets and verifying the existence of these assets.
 - d. Effectiveness and efficiency with which operational, financial, and administrative procedures are performed.
 - e. Operational results and whether these are consistent with established objectives and standards.
 - f. Quality of internal systems, policies, and procedures.

DISCUSSION and OPTIONS - WHAKAWHITINGA KŌRERO me ngā KŌWHIRINGA

Internal Audit Charter

4. The current Internal Audit Charter was prepared in March 2019 in accordance with the Institute of Internal Auditors best practice guidelines and approved by the then Finance & Audit Committee.
5. An Internal Audit Charter is the formal document that defines the purpose, authority, scope and responsibility of internal audit at Council.
6. The Internal Audit Charter is the best way to agree and describe how internal audit will provide value to the organisation, the nature of the services provided, and the specific focus or emphasis required of internal audit to help the organisation achieve its objectives.
7. The Internal Audit Partner is responsible for drafting the Charter and it is good practice to ensure it is reviewed periodically to ensure that it remains relevant to the needs of the organisation.
8. It is timely now for this review to take place to not only record the names and role changes that have taken place since its first adoption, but to also increase the scope of the Charter to note the outcome of any reviews performed by external parties with technical knowledge in a specific area. This will allow transparency to our internal audit function of where process improvements can be made, identify any risks and mitigating actions required, which can then be put in place and reported back to ARC.

9. **Attachment 1** is an Internal Audit Charter updated with minor changes.
10. The proposed changes are highlighted in yellow and summarised as follows:
 - a. Name change from:
“Finance & Audit Committee” to “Audit & Risk Committee” and;
“Central Organising Roopu” to “Te Ranga Whakakahau” throughout the document.
 - b. Name change from “Internal Audit Manager” to “Internal Audit Partner” throughout with the addition of a management relationship with the “Finance Manager” as well as the Chief Financial Officer on a day-to-day basis.
 - c. Increasing the internal audit scope to include schedule of review and actions points arising from independent audit/process reviews. This will also include a review of any internal control breakdowns and/or risk mitigation steps.

Internal Audit Plan

11. **Attachment 2** is the draft Internal Audit Plan that has been developed based on Council's strategic risks as identified from deep dive workshops, ARC reports, and highlighted from previous audit results.
12. This includes:
 - a. a historic coverage of the prior audit reviews from 2018-2023;
 - b. An indicative view of the prioritised list of audit reviews for the remainder of this financial year and the next using a risk-based methodology.
 - c. a high-level summary of the strategic and operational risks with a proposed timeline for the next three financial years. This is to ensure a longer-term view of internal audits with the intention of providing the most coverage possible of the “audit universe” to align with the risks identified.
13. This plan will continue to be reviewed annually to enable responses to any issues that may arise and to ensure it remains current and relevant.

ASSESSMENT of SIGNIFICANCE - AROTAKENGA o NGĀ HIRANGA

Consideration of consistency with and impact on the Regional Land Transport Plan and its implementation

Overall Process: Low Significance

This Report: Low Significance

Impacts on Council's delivery of its Financial Strategy and Long-Term Plan

Overall Process: Low Significance

This Report: Low Significance

Inconsistency with Council's current strategy and policy

Overall Process: Low Significance

This Report: Low Significance

The effects on all or a large part of the Gisborne district

This Report: **Low** Significance

This Report: **Low** Significance

The effects on individuals or specific communities

Overall Process: **Low** Significance

This Report: **Low** Significance

The level or history of public interest in the matter or issue

Overall Process: **Low** Significance

This Report: **Low** Significance

14. The decisions or matters in this report are considered to be of **Low** significance in accordance with Council's Significance and Engagement Policy.

TANGATA WHENUA/MĀORI ENGAGEMENT - TŪTAKITANGA TANGATA WHENUA

15. Matters of internal audit are not subjected to engagement with Tangata Whenua and Māori.

COMMUNITY ENGAGEMENT - TŪTAKITANGA HAPORI

16. Matters of internal audit are not subjected to community engagement.

CLIMATE CHANGE – Impacts / Implications - NGĀ REREKĒTANGA ĀHUARANGI – ngā whakaaweawe / ngā ritenga

17. The level of climate change impact and its implications will be determined by the areas of risk identified and the extent to which they affect climate change.

CONSIDERATIONS - HEI WHAKAARO

Financial/Budget

18. The financial impacts will be determined as part of the audit process.

Legal

19. While there are no legal requirements in relation to internal audit activities, the Internal Audit function assists in our statutory requirements. The combined mix of internal and external audit coverage supports the Audit & Risk Committee members to fulfil their governance responsibilities by identifying and reducing relevant risks to the delivery of Council's services and activities.

POLICY and PLANNING IMPLICATIONS - KAUPAPA HERE me ngā RITENGA WHAKAMAHERE

20. There are no policy and planning implications.

RISKS - NGĀ TŪRARU

21. This report is to provide assurance to areas of Council that are of higher risk.

NEXT STEPS - NGĀ MAHI E WHAI AKE

Date	Action/Milestone	Comments
May onward	Internal Audit Plan Updates	Quarterly update to ARC on internal audit plan and progress

ATTACHMENTS - NGĀ TĀPIRITANGA

1. Attachment 1 - Amended Internal Audit Charter [24-44.1 - 3 pages]
2. Attachment 2 - Draft Three Year Internal Audit Plan [24-44.2 - 6 pages]



Internal Audit Charter

Purpose

This Charter sets out the objective, authority, scope and responsibility of internal audit at the Gisborne District Council.

Role of Internal Audit

Internal Audit is an independent and objective assurance, consulting and advisory service (either through in-house or external resourcing) which aims to assist the organisation to accomplish its objectives. This is done by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes.

Planning

Internal Audit will prepare an internal audit plan based on Council's risks and previous audit results, and in consultation with:

- Te Ranga Whakahaui (TRW)
- Audit & Risk Committee

The plan will be flexible so Internal Audit can respond to any urgent requests to complete special tasks from TRW and/or Audit & Risk Committee.

Terms of reference (TOR) will be prepared for each audit to outline its objectives, scope, approach, and estimated completion date. Management of the area to be audited will have the opportunity to provide feedback on the TOR before the audit starts. This will help to ensure that audits focus on the issues of significance to the organisation.

Service Delivery

Access Authorisation

Internal Audit is granted full authority to access all files, correspondence and other documentation (subject to the provisions of the Privacy Act 1993 and other relevant legislation), physical property and personnel related to a review. Documents and information given to Internal Audit will be handled with the same standard of confidentiality and prudence as that exercised by normally accountable employees.

Independence

Internal Audit will be independent of the activities it audits. This independence is necessary to maintain audit objectivity and integrity. Internal Audit should be given the opportunity to provide input into the development of new key systems and processes. However, designing, installing and operating such systems and processes are not Internal Audit functions. Such activities are generally presumed to impair audit objectivity.

The Internal Audit Partner has direct access to the Chief Executive and maintains line management relationship with the Finance Manager and Chief Financial Officer on a day-to-day basis.

Internal Audit Scope

Internal Audit examines and evaluates the adequacy, efficiency and effectiveness of the Council's management control structure, including review of the:

- Reliability, timeliness and integrity of financial and operating information, and the processes used to identify, measure and report such information.
- Systems established to ensure compliance with policies, plans, procedures, laws and regulations.
- Means of safeguarding assets and verifying the existence of these assets.
- Effectiveness and efficiency with which operational, financial and administrative procedures are performed.
- Operational results and whether these are consistent with established objectives and standards.
- Quality of internal systems, policies and procedures.
- Schedule reviews and action points arising from independent audit/process reviews. This will also include a review of any internal control breakdowns and/or risk mitigation steps.

Internal Audit will undertake the following in fulfilling its responsibilities:

- Adopt a risk-based audit approach.
- Be proactive and forward thinking in approach.
- Design and execute audit plans that reflect both risk and cost effectiveness.
- Provide reports to management that identify control issues and make practical, cost effective recommendations for improvement.
- Follow up on audit issues to assure that identified problems have been resolved.
- Ensure the effectiveness and quality of the internal audit effort.

Reporting

Internal Audit will issue a written report on completion of each audit review. The report will outline significant issues found during the audits and practical recommendations and timeframes for addressing them. During each review, Internal Audit will maintain open communication with the manager and staff of the area(s) being audited.

The Internal Audit Manager will submit a quarterly summary report to TRW and the Audit & Finance Committee outlining activities, outcomes and findings of the Internal Audit function.

Follow Up

The Internal Audit Partner will routinely follow up on agreed corrective actions based on recommendations made during the preceding year. The Internal Audit Partner will submit a quarterly report to TRW and the Audit & Finance Committee outlining any recommendations made that have not been satisfactorily resolved.

Relationship with the External Auditor

The Council is subject to an independent external audit, which aims to provide an opinion on the fairness of information included in the Council's financial statements. The objectives of Internal Audit are different and focus on the effectiveness of systems and the accuracy of management information rather than offering an opinion on the statutory financial statements. However, there is some overlap of work and therefore Internal Audit will coordinate its activities with External Audit to ensure that optimum audit coverage and effectiveness is obtained at minimal cost.

Internal Audit will also make Internal Audit staff, and any relevant work papers or reports, available to the External Auditor on request.

Quality Assurance

Internal Audit will comply with the Standards for the Professional Practice of Internal Auditing set out by the Institute of Internal Auditors of New Zealand.

Internal Audit will seek feedback from key stakeholders periodically about Internal Audit's performance, and a more formal review of the function will be completed every five years in accordance with the International Professional Practices Framework.

Internal Audit will review this Charter periodically.

Charter Approval

Signed for an on behalf of Gisborne District Council by:

Nedine Thatcher-Swann
Chief Executive

Bruce Robertson
Audit & Finance Committee Chair

Date of approval

Date of approval

Tina Swann
Internal Audit Partner

Date of approval



Draft Three Year Internal Audit Plan 2024-2026

March 2024



Executive Summary

Background

As noted in the Internal Audit Charter, Internal Audit is an independent and objective assurance, consulting, and advisory service (either through in-house or external resourcing) which aims to assist the organisation to accomplish its objectives. This is done by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control, and governance processes.

This draft internal audit plan has been developed based on Council's risks as identified from deep dive workshops and highlighted from previous audit results. A prioritised list of all potential audit topics has been developed from these using a risk-based methodology.

It is noted that risks and priorities can change during the year due to emerging risks and risks events or Council changes so a degree of flexibility has been allowed to respond to these. As a result, this Internal Audit plan will continue to be reviewed on an annual basis to ensure it remains current and relevant.

Purpose of the Internal Audit Plan

The purpose of this internal audit plan is to provide Council and the Audit and Risk Committee with a balanced, risk-based approach to internal auditing over the next three years including an indicative scope and timetable.

The Internal Audit Partner is an approved member of the Institute of Internal Auditors of New Zealand and adheres to the core principles of the Professional Practice of Internal Auditing and the Code of Ethics. She is assisted as required by Management Accountants as the financial advisors for their respective hubs.

Development of the internal audit plan covers a variety of audits over several different areas of Council as shown from the historical coverage so far, noting where outsourcing is required by external specialist consultants for their technical knowledge.

Internal Audit Scope

The scope of internal audit has been outlined in the Internal Audit Charter. This draft internal audit plan aligns with the scope and will evaluate the adequacy, efficiency and effectiveness of the Council's management control structure plus provide assurance and improvement advice that appropriately encompasses the following:

- Reliability, timeliness and integrity of financial and operating information, and the processes used to identify, measure, and report such information.
- Systems established to ensure compliance with policies, plans, procedures, laws, and regulations.
- Means of safeguarding assets and verifying the existence of these assets.
- Effectiveness and efficiency with which operational, financial, and administrative procedures are performed.
- Operational results and whether these are consistent with established objectives and standards.
- Quality of internal systems, policies, and procedures.

HISTORIC COVERAGE OF PRIOR AUDIT REVIEWS FROM 2018-2023



INDICATIVE VIEW – FY2024 AND FY2025

REVIEWS	FY2024	FY2025
Deloitte - Data Analytics	Q1 (Jul 23 - Sept 23)	
Compliance Monitoring and Enforcement review	Q2 (Oct 23 - Dec 23)	
Infrastructure Process review	Q3 (Jan 24 - Mar 24) ←	Brought forward to FY2024
IT Network and Cyber Security Contract Management	Q4 (Apr 24 - June 24)	
Deloitte - Fraud Awareness and Data Analytics Sensitive Expenditure Delegated Authority Review Statutory Delegations review		Q1 (Jul 24 - Sept 24)
HR Practices and Payroll Overall Council Strategy (including strategic relationships and impact of externally driven change)	Deferred →	Q2 (Oct 24 - Dec 24) Deep Dive
PWC - tax review (GST compliance) Procurement Review Infrastructure/Silt Removal and Woody Debris	Deferred →	Q3 (Jan 25 - Mar 25)
Emergency Management Review Policy Reviews Cash Handling	Deferred →	Q4 (Apr 25 - June 25)

* External audits in red

INTERNAL AUDIT PLAN COVERAGE BY RISK

KEY RISKS	INHERENT RISK RATING	RESIDUAL RISK RATING	FY2024	FY2025	FY2026
Strategic Risk					
Overall Council Strategy (including strategic relationships and impact of externally driven change) - * to be reassessed *	TBD following deep dive	TBD following deep dive		Strategic Planning Process Deep Dive	Risk Management Process review
Financial (including fraud and corruption, procurement, and capital projects)	Serious	Serious	<ul style="list-style-type: none"> - Deloitte - Data Analytics - Infrastructure Process review - Contract Management 	<ul style="list-style-type: none"> - PWC tax review (GST and FBT) - Deloitte - Data Analytics and Fraud Awareness - Procurement review - Sensitive Expenditure - Cash handling - Delegations 	<ul style="list-style-type: none"> - PWC - Treasury Management - Deloitte - Data Analytics - Cash handling - AR/Credit Control - Sensitive Expenditure - Policy reviews
Infrastructure Asset Management	Serious	Serious			<ul style="list-style-type: none"> - Water Supply Management - Fixed Asset/Infrastructure Management
People and Capability	Serious	Major		- HR Practices and Payroll	- Ethics review
Natural Environment	Serious	Serious	- Compliance monitoring and enforcement review		

KEY RISKS	INHERENT RISK RATING	RESIDUAL RISK RATING	FY2024	FY2025	FY2026
Treaty Commitments - * new risk *	TBD following deep dive	TBD following deep dive			
Business Continuity (including IT)	Serious	Major	- IT Network and Cyber Security		- Business Continuity and Disaster recovery - Records management
Recovery	Serious	Serious		- Infrastructure/Silt Removal and Woody Debris	
Operational Risk					
Health and Safety	Serious	Moderate		- Policy review	
CDEM	Serious	Moderate		- Emergency management review	
Legal Compliance	Minor	Minor		- Statutory Delegations review	

* External audits in red

11. Reports of the Chief Executive and Staff for INFORMATION



24-47

Title: 24-47 Council Strategic Risk Report
Section: Risk & Performance
Prepared by: Daniel Haverty - Risk Advisor
Meeting Date: Wednesday 13 March 2024

Legal: No

Financial: Yes

Significance: **Low**

Report to AUDIT & RISK/ĀRAI TŪRARU ME TE TĀTARI KAUTE Committee for information

PURPOSE - TE TAKE

The purpose of this report is to inform the Audit & Risk Committee (ARC) on the status of Council's strategic risks.

SUMMARY – HE WHAKARĀPOPOTOTANGA

Management continues to review and monitor Council's strategic risks by applying Council's risk appetite framework to each area of risk, evaluating the control environment and managing the residual risk in accordance with Council's Risk Management Policy and framework.

This report provides updates concerning Council's 8 Strategic Risks, as well as 3 areas of operational risks, as shown in the 'Background' below.

Updates to Council's Internal Audit Programme are provided to ARC in Report **24-44** – Internal Audit Plan Update.

The decisions or matters in this report are considered to be of **Low** significance in accordance with the Council's Significance and Engagement Policy.

RECOMMENDATIONS - NGĀ TŪTOHUNGA

That the Audit & Risk/Ārai Tūraru me te Tātari Kaute Committee:

1. **Notes the contents of this report.**

Authorised by:

Pauline Foreman - Chief Financial Officer

Keywords: strategic risk, audit & risk, risk appetite, residual risk assessment

BACKGROUND - HE WHAKAMĀRAMA

1. This report provides an update on Council's strategic risk management activities for the period 29 November 2023 to 16 February 2024.
2. The below tables summarize the status of our Strategic Risks (**Table 1**), the trends over the last 12 months for these risks (**Table 2**) and a heat map visualization of the present residual risks (**Table 3**):

Strategic Risk Summary Table				
Strategic Risk	Inherent Risk	Residual Risk	Proposed Deep Dive	Risk Assessment completed
Overall Council Strategy	To be reassessed following deep dive	To be reassessed following deep dive	tbc	tbc
Financial (F)	Serious	Serious	Completed	Completed
Infrastructure Asset Management (AM)	Serious	Serious	tbc	Completed
People and Capability (PC)	Serious	Major	Completed	Completed
Natural Environment (NE)	Serious	Serious	tbc	Completed Reassess following Deep Dive
Treaty Commitments (TC)	Serious	Major	Completed	Completed
Business Continuity (BC)	Serious	Moderate	Completed	Completed
Recovery (R)	Serious	Serious	Completed	Completed
Operational Risk	Inherent Risk	Residual Risk	Proposed Deep Dive	Risk Assessment completed
Health and Safety (HS)	Serious	Moderate	Completed	Completed
CDEM (CD)	Serious	Moderate	Completed	Completed
Legal Compliance (LC)	Minor	Minor	Completed	Completed

Table 1: Strategic Risk Summary table with proposed deep dives and developments

Change in Residual Risk Over 12 Months					
Strategic (and Operational) Risks	Risk Level (17 May 2023)	Risk Level (4 Oct 2023)	Risk Level (1 Nov 2023)	Change	Current Risk Level (13 Mar 2024)
Civil Defense & Emergency Management (CD)	Major	Moderate	Moderate	-	Moderate
Health & Safety (HS)	Moderate	Moderate	Moderate	-	Moderate
People & Capability (PC)	Moderate	Major	Major	-	Major
Finance (F)	Serious	Serious	Serious	-	Serious
Legal Compliance (LC)	Minor	Minor	Minor	-	Minor
Natural Environment (NE)	Major	Serious	Serious	-	Serious
Asset Management (AM)	Serious	Serious	Serious	-	Serious
Business Continuity (BC)	Major	Major	Major	Down	Moderate
Treaty Commitments (TC)				New	Major
Recovery (R)			Serious	-	Serious

Table 2: Changes to residual risk over the last 12 months, including newly assessed Recovery and Treaty Commitments Strategic Risks

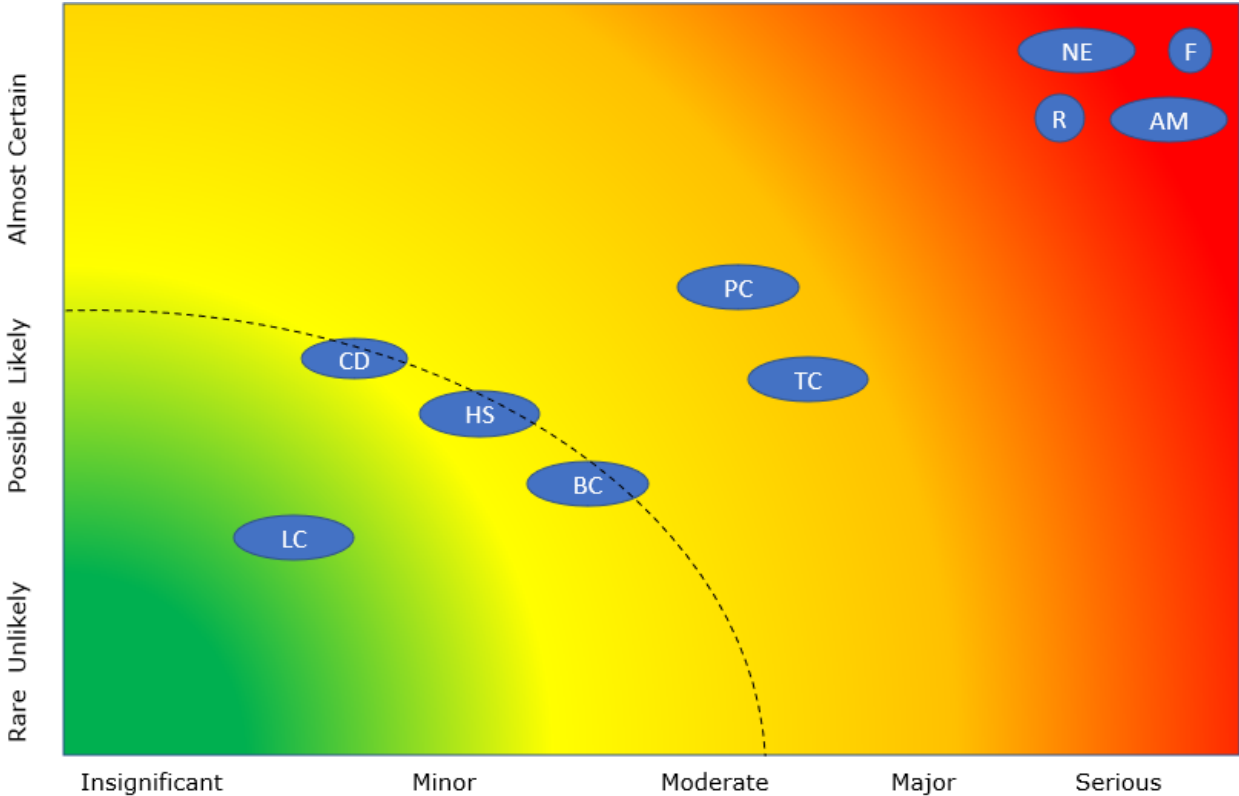


Table 3: Residual Risk Heat Map. Dashed line represents 'Moderate' risk appetite threshold.

Financial (F)	Asset Management (AM)	Treaty Commitments (TC)	People & Capability (PC)	Health & Safety (HS)
Natural Environment (NE)	Legal Compliance (LC)	Business Continuity (BC)	Civil Defence (CD)	Recovery (R)

DISCUSSION and OPTIONS - WHAKAWHITINGA KŌRERO me ngā KŌWHIRINGA

General Risk Management

3. The changes to Council's operating environment due to damaged infrastructure caused by multiple extreme weather events, ongoing effects of high inflation and national skill shortages supports Council re-assessing what our main risks are and how they impact on Council's ability to deliver its 8 community outcomes contained in its Long-Term Plan. These changes will increase our exposure to risk which in turn will impact on our risk appetite. We may need to consider operating at an elevated level of risk for the immediate future as we seek to repair damage caused by the ongoing weather events.
4. The widespread damage incurred and its impact on our wider community means that immediate considerations regarding the Annual and Long-Term Plan (LTP) have changed, and Council has been granted an Order in Council (OIC) suspending the statutory requirement for a 10-year LTP; instead the OIC enables Council to develop an unaudited 2024-2027 3-Year Plan (3YP) to replace the LTP so Council can address its strategic priorities in lieu of recovery, such as building resilient transport, resilient waters and enabling effective regulatory functions. The 3YP is still under development, but when adopted will provide Council's strategic direction and basis for decision making in the medium term, despite uncertainty relating to funding and insurance payments. Council's strategic risks will be reviewed following adoption of the 3YP.

Residual Risk Assessments (Strategic)

Finance (F) Strategic Risk

5. The Finance strategic risk is defined as a 'failure to be financially sustainable.'
6. The current residual risk level for Finance is at '**Serious**', which is outside Council's overall risk appetite.
7. The recovery environment has inherent financial risks, including impacts to cash flow, operating costs, levels of service, future uncertainty and securing the funding required to address the network damage. The extent of damage has been assessed at \$1.1b, however confirmed Infrastructure funding is only at approximately \$260m. As such, this residual risk remains unchanged, reflecting the current operating environment as well as the costs associated with recovery exceeding Council's financial appetite.
8. Management will continue to take a prudent approach with Council's finances reflecting the '**Serious**' level of risk we are operating at given the current uncertainty in the financial environment due to high inflation, higher interest rates, and emerging risks from other factors such as the Affordable Water Reform and the impact of the recovery effort following Cyclone Gabrielle.

Asset Management (AM) Strategic Risk

9. The Asset Management risk is defined as 'Failure to provide fit for purpose, safe, affordable and sustainable assets that the community expects, over the long-term'.
10. The current residual risk level for Asset Management is assessed as '**Serious**' which is outside Council's overall risk appetite.
11. This assessment is unchanged from prior reporting since Cyclone Gabrielle, reflecting the extremely fragile and vulnerable roading and water infrastructure, with reduced resilience.
12. The additional costs for restoring and maintaining an effective local roading network are beyond the Council's current budget provisions. The roading network damage is assessed between \$465-\$725m, however funding secured to date is approximately \$210m. Recovery of the network will take time, both in terms of ensuring capacity to undertake the work, but also ensuring affordability.
13. The water supply for the city is still in a vulnerable state. However, the Waingake Water Treatment Plant is now able to meet production requirements again. The installation of the new lamella filtration system offers more resilience by enabling more silt to be removed, thus increasing the production capacity even after rain events where water is more turbid. An Ultra-Violet (UV) facility has also been installed at Waingake providing advanced disinfection.
14. Council's community assets remain at a '**Major**', also outside of appetite. Remediation work is ongoing and the costs of maintaining affected assets has increased.

Recovery (R) Strategic Risk

15. The 'Recovery' strategic risk is defined as a 'failure to deliver the Regional Recovery Plan.'
16. An initial residual risk assessment for Recovery has been made, indicating a residual risk of '**Serious**', which is outside Council's overall risk appetite. The residual risk remains unchanged.
17. Funding remains the penultimate risk and concern for recovery. There is uncertainty as to the level of resiliency incorporated into recovery as it is unclear the funding that is available from central government to build resilience into the projects. There is also a risk of delays for Category 2 infrastructure projects.
18. The risk of unacceptable Category 2 and 3 solutions which applies to both community and Council is primarily managed through the terms of the funding agreement with central government, requiring delivery plans for each project, prior to the release of funding. This ensures projects are appropriately scoped before commencing, as is such for the Category 3 buyouts and lifting of houses. The residual risk for this particular risk was assessed as '**Moderate**'.
19. The Category 3 buyout process involves individual property owners which has inherent legal and reputational risks to Council. Therefore, extra care and support are required with affected property owners. A team from Simpson Grierson has been appointed to facilitate the buyout of Category 3 properties, for which the settlement process has commenced. This is supported by robust processes for independent valuations. Therefore, the residual risk for this particular risk has been reduced to '**Minor**'.

20. Additional treatment is applied to this space through a proactive communications approach, to keep affected peoples and communities informed of their options. Recovery is re-engaging and building relationships with community groups who previously had lost confidence in local government. However, there is still reluctance in some communities to engage with community led recovery due to past unfavourable interactions with local and central government. There is inherent risk to our relationship with communities as part of engagement resulting from the lack of funding available to meet all of the needs, priorities and aspirations of each community.
21. There has been ongoing engagement with central government and relevant Ministers of the new government to strengthen the relationship. Council participated in the Tairāwhiti Tomorrow Together Summit, held on 23 February 2024, which was a forum designed to bring civic, Iwi, community, business and social leaders together with senior Ministers and officials from the new government to discuss regional development.
22. Over 178,000 tonnes of woody debris have been extracted, of which debris removed from beaches alone equates to just over 32,000 tonnes. Woody debris extraction on beaches is approximately 80% complete, with most of the work remaining in Tokomaru Bay, Uawa and town bridges. The woody debris extraction in the catchments only equates to approximately 10% of the known material in catchments. Prioritisation for further extraction is underway as well as seeking additional funding for extraction projects. Delays have occurred due to fire season, ongoing waves of COVID and a limited resource pool. An agreement has been signed with Ngāti Porou to carry out some of the extraction.
23. Recovery updates are reported through the Civil Defence Emergency Management Group (CDEM Group). For more detailed information as to recovery projects and risks, please refer to the latest recovery report to CDEM Group from 14 February 2024, report number **24-5**.

Natural Environment (NE) Strategic Risk

24. The Natural Environment strategic risk is defined as 'failure to sustainably manage our natural environment under Council control.'
25. The Natural Environment residual risk has been assessed as '**Serious**', which is outside of Council's appetite. The residual risk remains the same.
26. The Natural Environment Strategic Risk is being reviewed in lieu of the many changes in government legislation since this risk was first assessed, as well as the changing priorities since Cyclones Hale and Gabrielle, with additional focus on woody debris and sediment aggradation. A Deep Dive will be scheduled upon completion of the review. Until then, reporting related to woody debris and sediment aggradation will be reported through the Recovery Strategic Risk.

People and Capability (PC) Strategic Risk

27. The People and Capability (P&C) strategic risk is defined as 'the Council does not have the right people with the right skills and attitudes.'
28. The current residual risk level for P&C has increased back to '**Major**' from '**Moderate**', which is outside Council's risk appetite.

- 29. The Council's appetite range for permanent staff turnover has '**Major**' between 17-25%. The residual risks remain at Major as the quarterly turnover rate is at 18.8%, relatively unchanged from last quarter at 18.7%, and 19.1% the quarter prior. Although outside appetite, the trend is stable and near '**Moderate**' suggesting the controls People & Capability are using are effective, despite market pressures. Recently, People & Capability hired an experienced Senior Recruitment Advisor which will help further mitigate the risk.
- 30. As of February 2024, the New Zealand labour market demonstrates resilience amidst global economic pressures. The unemployment rate remains relatively low at 4.0% for December 2023, reflecting the strength of the labour market even in the face of a cost-of-living crisis impacting consumers. While there are signs of improvement, Council continues to face turnover pressures resulting from a tight local government market due to a combination of factors such as a shrinking workforce, overseas migration, demographic changes, housing pressures, and the demand for skilled workers. This may lead to more competitive wages and benefits being required to secure talent, amidst intensifying competition among employers. This scenario is further compounded by the current environment of rising inflation and interest rates.
- 31. The below table shows the permanent staff turnover trend over the last year:

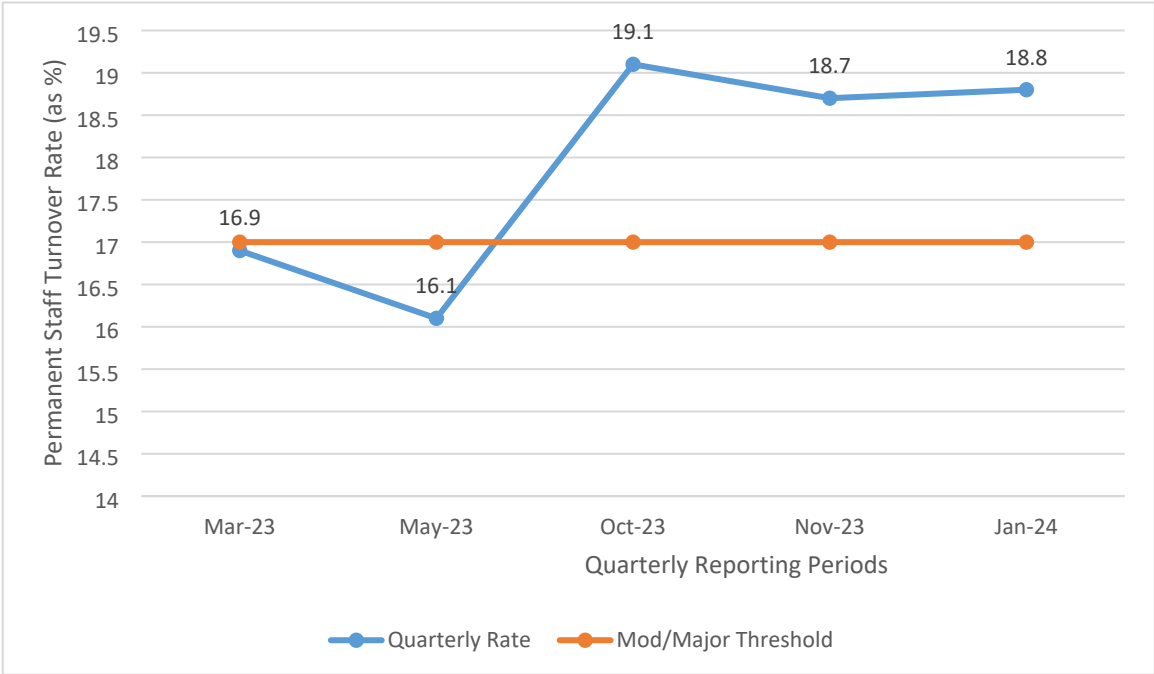


Table 4: Permanent staff turnover rate since Gabrielle (blue line); Threshold between 'Moderate' and 'Major' appetite at 17% (orange line)

Treaty Commitments (TC) Strategic Risk

- 32. The Treaty Commitments (TC) strategic risk is defined as 'Council does not have the appropriate policies, systems and procedures to facilitate enduring Treaty Partnership.'
- 33. Deep Dives were held following the October and November 2023 ARC meetings to discuss the risk environment and strategic risk bowtie. The risk has since been adopted and the indicative residual risk is at '**Major**', outside of Council's overall risk appetite.
- 34. This residual risk is based on an initial quantitative assessment that began at the start of 2024, by canvassing each hub to gauge how each element of the risk presents itself and how the controls are applied across each hub. This approach was taken due to the variety of different operating environments across Council, which have their own unique relationship with Treaty Partners, making it difficult to apply a one-size-fits all approach to this risk.
- 35. Council takes a conservative approach to risk management, benching the overall residual risk to the highest-level risk area of any particular strategic risk. For Treaty Commitments, the following risks are those which have been initially assessed outside of appetite, requiring treatment:

Risk ID	Risk	Control	Residual Risk
1	Lack of capability and systems to support enduring Treaty Partnership.	Activity Management Plans demonstrate how relative Partnership priorities are provided for and framework to monitor and evaluate performance.	Major
2	We do not have effective relational forums/mechanisms that foster enduring Treaty relationships	Council facilitates opportunities for participation in decision making with Treaty Partners (e.g., CDEM, TRMP, Wastewater).	Major

- 36. Options for treatment are being assessed, which will be presented to ARC in June 2024.

Business Continuity (BC) Strategic Risk

- 37. The Business Continuity (including Information and Technology) Strategic Risk is defined as 'The Council is unable to provide critical services within appropriate timeframes.'
- 38. The current residual risk level for Business Continuity is assessed at '**Major**' which is outside Council's overall risk appetite.
- 39. The Business Continuity Risk is reduced to '**Moderate**'. As the Recovery Centre has become resourced, the lines between recovery and business-as-usual are less blurred. This enables better continuity for staff delivering projects and is expected to further improve upon Council priorities being set in the 3YP. Further mitigation has occurred in increasing resiliency and redundancy to our information technology systems, with the Starlink system hardwired to the new ECC. Management is continually improving its business continuity plans and strategies, taking the lessons learned from Cyclone Gabrielle to make practical improvements and rectifying gaps where identified.

Residual Risk Assessments (Operational)

Health and Safety (HS) Strategic Risk

40. The Health and Safety (H&S) strategic risk is defined as 'the inability to adequately protect Council staff and the community, from hazards or events where reasonably practicable to do so'².
41. The current residual risk level for Health and Safety is assessed as '**Moderate**' which is within Council's overall risk appetite.
42. There are no updates to the residual risk. Operational risk updates to Health & Safety are provided to ARC today in the Health & Safety report **24-51**.

Civil Defence Emergency Management (CD) Strategic Risk

43. The Civil Defence Emergency Management (CDEM) strategic risk is defined as the risk that the CDEM Group 'is unable to provide appropriate response and recovery operations.'
44. The current residual risk level for CDEM remains at '**Moderate**', which is within Council's risk appetite.
45. There are no updates for this risk. The latest update to the CDEM Group committee for CDEM is from 14 February 2024 under report number **24-20** – Strategic Risk Deep Dive.

Legal Compliance (LC) Strategic Risk

46. The Legal Compliance risk is defined as 'legal and policy non-compliance'.
47. The current residual risk level for Legal Compliance is assessed as '**Minor**' which is within the Council's overall risk appetite. There are no updates to this risk.

ASSESSMENT of SIGNIFICANCE - AROTAKENGA o NGĀ HIRANGA

Consideration of consistency with and impact on the Regional Land Transport Plan and its implementation

Overall Process: **Medium** Significance

This Report: **Low** Significance

Impacts on Council's delivery of its Financial Strategy and Long Term Plan

Overall Process: **Medium** Significance

This Report: **Low** Significance

Inconsistency with Council's current strategy and policy

Overall Process: **Medium** Significance

This Report: **Low** Significance

The effects on all or a large part of the Gisborne district

Overall Process: **Medium** Significance

This Report: **Low** Significance

² Reasonably practicable is defined in terms of Health and Safety Act 2015 Section 22 – and includes what a person ought reasonably to know about the risk or hazard, ways of eliminating or minimising the risk, and the costs of ways to eliminate or minimising the risk (whether the cost is grossly disproportionate to the risk).

The effects on individuals or specific communities

Overall Process: **Medium** Significance

This Report: **Low** Significance

The level or history of public interest in the matter or issue

Overall Process: **Medium** Significance

This Report: **Low** Significance

48. The decisions or matters in this report are considered to be of **Low** significance in accordance with Council's Significance and Engagement Policy.

TANGATA WHENUA/MĀORI ENGAGEMENT - TŪTAKITANGA TANGATA WHENUA

49. To date, engagement has primarily been internal as the areas of risks have been identified. This will then inform the level of tangata whenua engagement required.

COMMUNITY ENGAGEMENT - TŪTAKITANGA HAPORI

50. The level of community engagement will be determined by the areas of risk identified and the degree to which they directly affect the community.

CLIMATE CHANGE – Impacts / Implications - NGĀ REREKĒTANGA ĀHUARANGI – ngā whakaaweawe / ngā ritenga

51. The level of climate change impact and its implications will be determined by the areas of risk identified and the extent to which they affect climate change. The 'Recovery' Risk is vulnerable to further future adverse weather events (and within this, the FOSAL workstream) as is the 'Natural Environment' Risk
52. Ongoing regional planning will be required alongside the development of 'business as usual' considerations.

CONSIDERATIONS - HEI WHAKAARO

Financial/Budget

53. The financial impact will be determined by the resource allocation required to meet Council's risk appetite for the areas of risk identified. The 'Recovery' risk is reliant on central government funding for successful delivery.

Legal

54. This report is part of Council's obligations to operate in a prudent manner by identifying and reducing relevant risks to the delivery of its services and activities.

POLICY and PLANNING IMPLICATIONS - KAUPAPA HERE me ngā RITENGA WHAKAMAHERE

55. This report is consistent with Council's Risk Management Framework.

RISKS - NGĀ TŪRARU

56. This report is part of Council's wider organisational risk management process which seeks to minimise risk across the Council organisation. The process being undertaken as set out in this report will be applied to the remaining strategic risks.

NEXT STEPS - NGĀ MAHI E WHAI AKE

Date	Action/Milestone	Comments
Ongoing	Determine if the Council is currently exposed to any risks beyond its risk appetite.	Reported within Audit & Risk Committee meeting programme.
Ongoing	Plan and conduct deep dive risk sessions with the Audit & Risk Committee.	Reported within Audit & Risk Committee meeting programme.

Title: 24-51 Health & Safety
Section: Health & Safety
Prepared by: David Wilkinson - Health & Safety Manager
Meeting Date: Wednesday 13 March 2024

Legal: No

Financial: No

Significance: **Low**

Report to AUDIT & RISK/ĀRAI TŪRARU ME TE TĀTARI KAUTE Committee for information

PURPOSE - TE TAKE

The purpose of this report is to update the Audit & Risk Committee with specific information on critical health, safety and wellbeing risks, and controls to mitigate these risks at all Gisborne District Council workplaces.

SUMMARY – HE WHAKARĀPOPOTOTANGA

Gisborne District Council has duties under the Health and Safety at Work Act 2015 (HSWA) and its associated Regulations. These include:

- Applying due diligence to ensure Council, through its Chief Executive, provides resources and support to meet legal health and safety obligations.
- Ensuring that significant health and safety risks have been identified and that robust controls are implemented to mitigate these risks, and that they are reviewed regularly.
- Assurance that all workers are confident that Council is providing a safe workplace for its workers and other persons.
- Confirming that Council is compliant with health and safety legislation and striving to continuously improve health and safety systems and culture.
- Ensuring all workers are valued and that their health, safety, and wellbeing is essential to the overall success of Gisborne District Council.
- Ensuring senior management and councillors are aware of their duties under s.44 "Due Diligence" and understand Council risks and resources available to mitigate.
- Providing key information relating to these matters at a governance level.

The decisions or matters in this report are considered to be of **Low** significance in accordance with the Council's Significance and Engagement Policy.

RECOMMENDATIONS - NGĀ TŪTOHUNGA

That the Audit & Risk/Ārai Tūraru me te Tātari Kaute Committee:

- 1. Notes the contents of this report.**

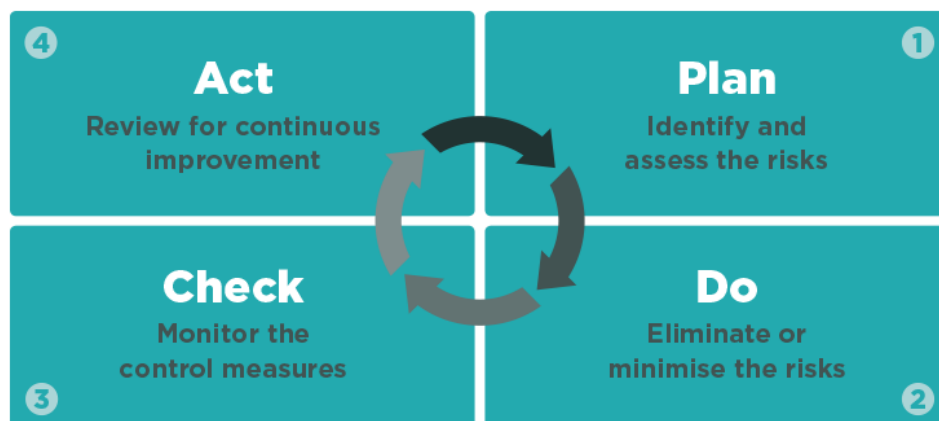
Authorised by:

James Baty - Director Internal Partnerships & Protection

Keywords: PCBU – Person conducting a business or undertaking, Health & Safety, Health & Safety at Work Act (HSWA)

BACKGROUND - HE WHAKAMĀRAMA

1. HSWA provides regular opportunities to review case law and related precedents together with reviews of frequent Regulator media reports.
2. Our focus continues to be on critical risks, staff wellbeing, and building a culture where all our workers feel supported, understand the risks associated with their work, and the controls needed to mitigate these. Accordingly, this report provides critical updates.
3. One of the key requirements of health and safety legislation is that it is mandatory to have active worker participation. We formally apply this in two ways:
 - a. By having nominated Health and Safety Representatives, who cover a specific work group across Council. Currently, each representative operates in this role for a period of two years. Health and Safety Representatives are consulted on worker health and safety matters, involved in investigations, meet quarterly and are given a variety of training opportunities during their term
 - b. All workers are encouraged to report accidents, incidents and near misses through the Damstra Safety system (our health and safety management platform). A mobile Damstra app is available, which staff are encouraged to use, and uptake remains encouraging
4. Gisborne District Council recognises that a well-functioning health and safety system relies on participation, leadership, and accountability. HSWA sets out the principles, duties, and rights in relation to workplace health and safety. A guiding principle of HSWA is that workers and others need to be given the highest level of protection from workplace health and safety risks, as is reasonable.
5. A review of Council's strategic risks included health and safety, resulting in several options to ensure ongoing continuous improvement.
6. Healthy and safe work starts with identifying and understanding what our work-related health and safety risks are. It then involves implementing what is reasonable and practicable to eliminate those risks. Where the risk cannot be eliminated, it must be minimised so far as is reasonably practicable.
7. We follow the "Plan-Do-Check-Act" four steps model to help manage our work health and safety risks:



8. We prioritise and manage critical risks first before addressing less serious risks. Teams are required to review work activities on an ongoing basis and identify any new risks that need management. We collaborate with other businesses where we share work risks, such as shared workplaces or contracting chains. Additionally, we solicit input from workers not only in identifying health and safety risks but also in selecting solutions. We believe that people are more likely to take responsibility and make good choices if they have been involved in the discussions, bearing in mind that workers are the eyes and ears of our business. They often suggest practical, cost-effective, and safe solutions.
9. Teams have identified their operational risks and the controls to manage these risks, which are reviewed annually or following any incident, accident, or near miss. We have introduced a business partnership model, assigning teams their health and safety support where the HomeSafe team collaborates and reviews team risks, developing minimum risk guidelines for staff and contractors to follow.
10. Much of the Council's medium to high-risk work is undertaken by contractors. Before becoming an approved Council contractor, a comprehensive health and safety assessment is conducted with contractors, who are required to pass a pre-qualification audit of their health and safety systems using our pre-qualification systems, SHE Assure and Tōtika. Both independent providers assist us in making smarter health and safety decisions, backed by data, and supported by a rigorous process.
11. Council staff who engage medium or high-risk contractors undertake checks of any qualifications, licensing, safety plans, and associated documentation before work commences. Monthly monitoring of contractors undertaking physical work is required by the person responsible for engaging them or a suitable project consultant/team. Examples include the Large Woody Debris (LWD) and associated response tasks, encompassing dedicated health and safety support to verify and assure performance, which is overseen by the HomeSafe team. A comprehensive review of contractor management has recently been completed.

DISCUSSION and OPTIONS - WHAKAWHITINGA KŌRERO me ngā KŌWHIRINGA

Identified Health and Safety Operational Risks

12. Our top ten identified operational risks are:
 - Conflict, violence, and aggression
 - Falls from heights
 - Driving and vehicle safety
 - Working in the road corridor
 - Contractor management
 - Confined spaces and access
 - Isolated, remote, lone working
 - Hazardous substances, including asbestos
 - Mental health and wellbeing – Psychosocial risks
 - Staff turnover and retention

Cyclone Gabrielle Recovery Phase

13. A year after Cyclone Gabrielle, we continue to diligently monitor elevated risks with a focused approach on:
- Navigating the fragile road network safely.
 - Enhancing contractor management, including the thorough review of site-specific safety plans (SSSP). We acknowledge the strenuous efforts and long hours put in by contract workers, emphasising that managing stress and fatigue is of utmost importance.
 - Collaborating closely with the Recovery team and offering support to independent contractors across a diverse array of work streams.

Compliance

14. Workplace health and safety extends beyond mere compliance with the letter of the law. It's about ensuring our fundamental principles of workplace health and safety are embedded in our organisation's culture. To this end, several compliance initiatives are underway, with health and wellbeing as a key focus.
15. Gisborne District Council plays a crucial role in the local Te Tairāwhiti Asbestos Liaison Protocols, where the Council, Te Whatu Ora, Fire and Emergency New Zealand (FENZ), and WorkSafe collaborate to support the reduction of occupational and public health risks associated with asbestos exposure. Sharing information between agencies ensures we maintain an adequate level of awareness, especially concerning flood-impacted properties, renovations, and repairs post-Gabrielle. Updates from FENZ on residential house fires ensure teams, including compliance, are informed.
16. To ensure all elected members fulfil their due diligence in their capacity as officers, health and safety reports to the Audit & Risk Committee will also be included in the subsequent Council agenda. The updates to the Governance Structure and Terms of Reference (Report 20-219) will mean that such information in the future will be accompanied by any recommendations from the Audit & Risk Committee.
17. Part of an Officer's role at a PCBU (Person Conducting a Business or Undertaking) is to ensure a safe workplace and that the Council has the necessary resources available. This is achieved in several ways:
- a. Te Ranga Whakahau (TRW), including the Chief Executive, meets weekly to discuss health and safety. Regular reviews of health and safety risks are conducted, covering general data, trends, accident data, critical risks, and changes to guidance, standard operating procedures, and health and safety information.
 - b. The Chief Executive and TRW ensure that sufficient finance and resources are made available as required.
 - c. Directors attend Health and Safety Committee meetings.
18. Gisborne's branch of NZISM (New Zealand Institute of Safety Management) continues to promote safety and wellbeing throughout Tairāwhiti.

Wellbeing

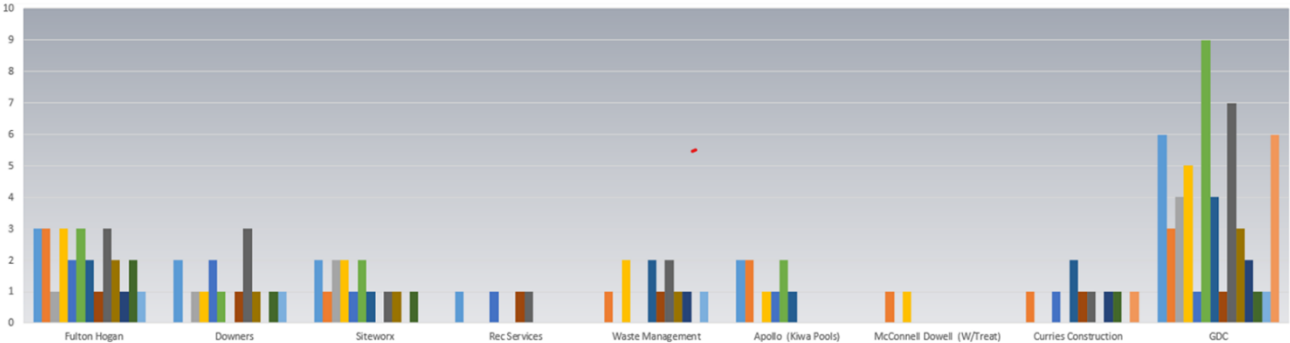
- 19. Council conducted a wellbeing survey among staff, achieving an 92% completion rate. The results offered valuable insights, and identified common themes are now being integrated into subsequent initiatives.
- 20. TRW endorsed a wellbeing proposal in which the local organisation Hear4u will be available for one day per month for one-on-one sessions with staff. In addition, a 6-week fitness challenge has recently commenced.
- 21. A wellbeing group has been formed and meets regularly to plan events and support the wellbeing of all teams.
- 22. The HomeSafe team collaborates closely with the Culture and Development and People and Capability teams to address psychosocial hazards in the workplace.

Contractor Management

- 23. A considerable number of contractors are engaged in Council work, many on short-term contracts. Obtaining accurate and timely data from these contractors can be challenging. Incidents, accidents, and near misses are reviewed, with any recommendations arising from the investigations being shared. Serious incidents, including serious near misses, are entered into the Council's Damstra safety system, and notified to TRW.
- 24. Working closely with approved contractors involves regular meetings where health and safety, including accident and incident data, are reviewed. Monitoring of additional contractor near miss reporting is conducted to evaluate trends and make comparisons with reported injury rates (Table 1). The benefit of this collaboration is twofold: it not only ensures that the Council complies with the requirements under Section 34 of the HSWA concerning overlapping duties but also facilitates the exchange of learnings. Investigations into contractor events provide an opportunity to share insights within Council teams and with other contracting companies. There is an increased emphasis on assurance and verification, including regular reviews, site audits, and investigation reviews.

Near Miss Reporting – Tier 1 Contractors

	2022				2023												2024	Total
	Sept	Oct	Nov	Dec	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	
Fulton Hogan	2	3	2	3	3	1	3	2	3	2	1	3	2	1	2	1	0	34
Downers	1	1	1	2	0	1	1	2	1	0	1	3	1	0	1	1	0	17
Sitework	2	1	1	2	1	2	2	1	2	1	0	1	1	0	1	0	0	18
Rec Services	1	0	2	1	0	0	0	1	0	0	1	1	0	0	0	0	0	7
Waste Management	1	3	3	0	1	0	2	0	0	2	1	2	1	1	0	1	0	18
Apollo (Kiwa Pools)	2	0	1	2	2	0	1	1	2	1	0	0	-	-	-	-	-	12
McConnell Dowell (W/Treat)	1	1	1	0	1	0	1	0	0	0	0	0	-	-	-	-	-	5
Curries Construction	-	-	-	-	1	0	0	1	0	2	1	1	0	1	1	0	1	9
GDC	4	1	2	6	3	4	5	1	9	4	1	7	3	2	1	1	6	60



25. The recovery team is building capability as contractors continue to complete associated works across Tairāwhiti. A review of the structure has allowed for additional health and safety resources, which will aid in assurance and verification audits for compliance and good practice.
26. Internal health and safety realignment has been implemented to enhance assurance and verification of key contractors within our Community Lifelines Hub and government-funded projects by MPI/DIA. Recruitment for additional health and safety resources is underway.
27. A 'deep dive' into contractor management has been completed, outlining that the current process is fit for purpose, and challenges with assurance and verification have been addressed as detailed above.

Keep Up to date with Health and Safety Matters

28. Due diligence includes taking reasonable steps to acquire and keep up to date with knowledge of work health and safety matters, as per Section 44(4)(a) of the HSWA.

Whakaari/White Island Update

29. In a ruling on the Whakaari White Island disaster, Judge Evangelos Thomas ordered \$10.21 million in reparations to the victims' families and survivors. Five parties were found guilty, with Whakaari Management Limited receiving the largest penalty of \$978,000 and being responsible for \$4.57 million of the total reparations. White Island Tours, operating the tours on the volcano, was fined \$483,900 and must pay \$4.68 million in reparations for failing to provide sufficient safety information. Other penalised parties included Volcanic Air Safaris (fined \$473,602 and ordered to pay \$308,871 in reparation), Aerius Limited (fined \$271,432), and Kahu NZ Limited (fined \$183,450).

Other

30. The recent forestry fatality in Wairoa serves as a sombre reminder of the inherent dangers present in forestry operations, particularly those involving large wood debris.
[Inquiry under way into death of Gisborne forestry worker \(gisborneherald.co.nz\)](https://www.gisborneherald.co.nz)
31. The importance of overlapping duties and the assurance of contractors engaged to support Council activities was highlighted in an incident involving the Dunedin District Council, Downer contractors, and clear road signage. Regular meetings and audits to ensure the assurance of work activities carried out on behalf of the council are essential.
[Grieving father of teen Jayde Cummings vindicated in coroner ruling for 2019 Outram crash - NZ Herald](#)

Our Key Processes

- Facilitation of the Employee Participation, or WEPR (Worker Engagement, Participation, and Representation) process, in line with HSWA regulations.
- Management of Damstra software, which aligns with AS/NZS 4801 Occupational Health and Safety Management systems, providing a repository for all health and safety information, hazard registers, risk registers, compliance registers, and monitors improvement actions and investigations.

- Leading the Health and Safety Risk Management process, a core function of the Damstra system. The risk module has a sophisticated structure that fully integrates with all outputs of Damstra, where risk assessments and controls are monitored and continually improved.
- Contributing to the BOPLASS Mahi Tahi Local Government Collaboration Portal, which provides a shared resource where Council health and safety policy, guidance, and related material are freely available, and members meet on a quarterly basis.
- Coordinating the audit and review Process within Damstra software. Scheduling and improvement actions are applied to individuals and monitored until close-out/completion.

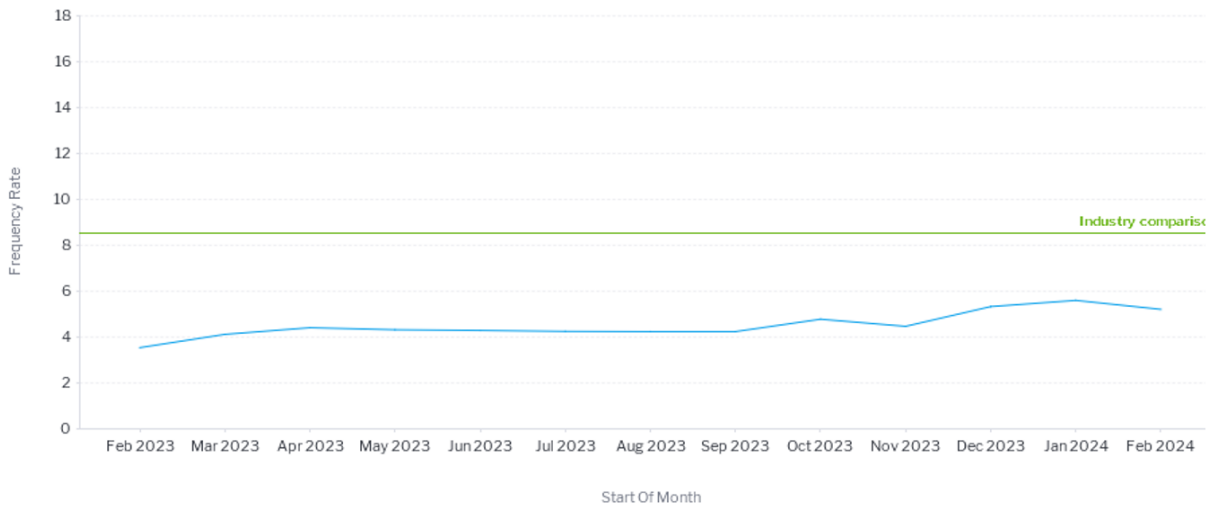
Process Gaps or Improvement Opportunities

32. Improvement opportunities identified include: -

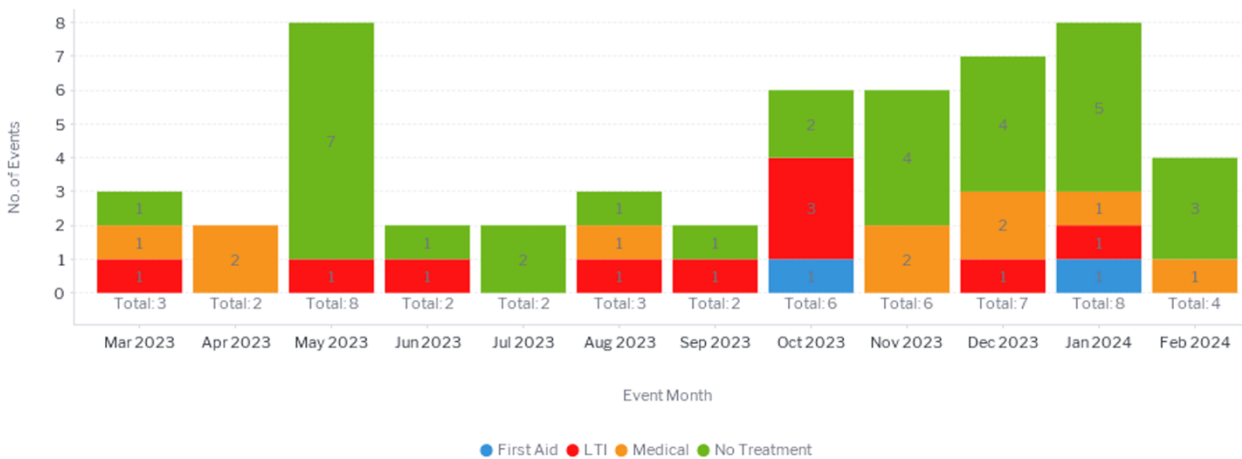
- Certain features of Damstra are not fully comprehended or leveraged as of yet. To address this, we are rolling out continuous training programs specifically designed for managers, team leaders, and their respective teams.
- The challenge of staff leaving, and the resulting loss of team expertise necessitates not just additional resources, but also time dedicated to comprehensive training.
- We actively promote prompt reporting among staff and contractors for all incidents, including injuries and, notably, near misses, to foster a culture of safety and awareness.
- Our health and wellbeing initiatives are in the process of being more thoroughly developed, coordinated, and implemented to better serve our workforce.
- Managers and Team Leaders are making concerted efforts to regularly connect with remote workers, ensuring their wellbeing and optimising their home office setups.
- In terms of accountability, we are currently reassessing our annual health and safety Key Performance Indicator (KPI) process to enhance its effectiveness.
- We recognise the need for additional resources dedicated to contractor assurance and verification activities, a necessity that emerged from our comprehensive contractor management review.

Graphs

TRIFR – Total Recordable Injury Frequency Rate

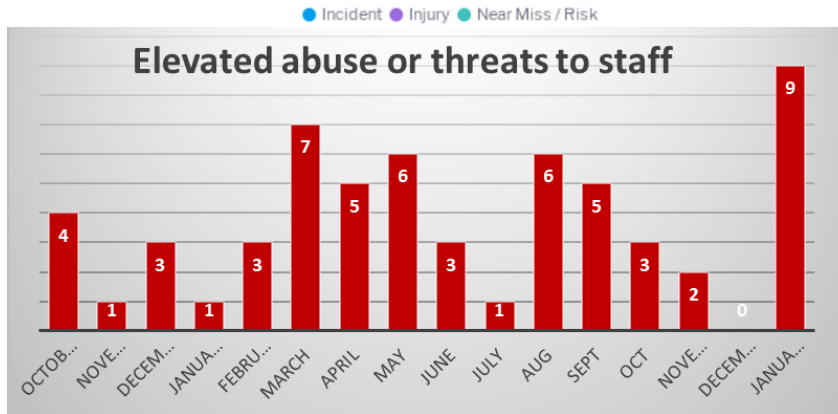
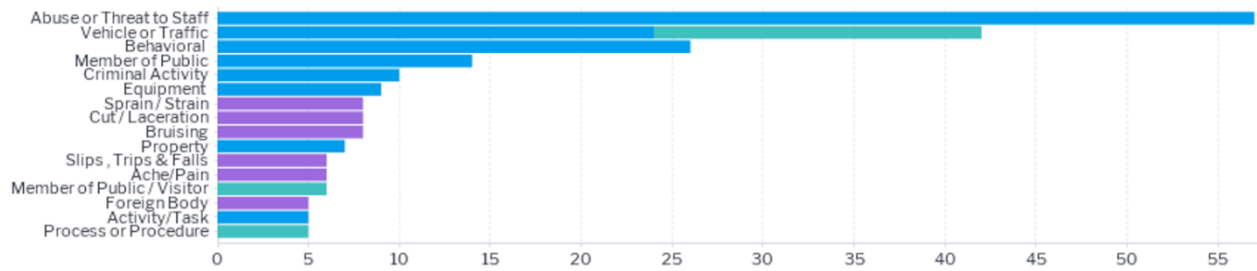


Summary of incidents



- Lost Time Injuries (LTI) Dec/Jan:
 - Serious road traffic incident, passenger suffered concussion, completing gradual return to work plan.
 - Lower back sprain sustained while doing manually digging.

Events by Training Category – Business Wide – Rolling 12 Months



- Abuse and conflict - following a period of quiet in December, there has been a noticeable uptick in reports of abuse and conflict across council teams. This increase could be attributed, in part, to our efforts to encourage more comprehensive reporting.

Incident	Fav	Adverse
Abuse or threat to staff	-	>9
Behavioral	-	>5
Foreign Body	-	-
Member of public/Visitor	-	-
Slips, Trips & Falls	-	-
Bruising	-	-
Vehicle or traffic	-	>1
Criminal Activity	<1	-
Sprain/Strain	<3	-
Cut/Laceration	-	-

Notifiable events

- An incident at the Kiwa Pools outdoor 33m pool (rope swing) resulted in a head injury. The injured party has made a complete recovery, and the ensuing investigation identified several opportunities for improvement.

ASSESSMENT of SIGNIFICANCE – AROTAKENGA O NGĀ HIRANGA

Consideration of consistency with and impact on the Regional Land Transport Plan and its implementation

Overall Process: Low Significance

This Report: Low Significance

Impacts on Council's delivery of its Financial Strategy and Long Term Plan

Overall Process: Low Significance

This Report: Low Significance

Inconsistency with Council's current strategy and policy

Overall Process: Low Significance

The effects on all or a large part of the Gisborne district

Overall Process: Low Significance

The effects on individuals or specific communities

Overall Process: Low Significance

The level or history of public interest in the matter or issue

Overall Process: Low Significance

33. The decisions or matters in this report are considered to be of **Low** significance in accordance with Council's Significance and Engagement Policy.

TANGATA WHENUA/MĀORI ENGAGEMENT - TŪTAKITANGA TANGATA WHENUA

34. While no tangata whenua engagement was required to complete this report, we are respectful when partnering with our community and organisations and ensure Te Tiriti o Waitangi – The Treaty of Waitangi is recognised in our daily work.

35. The HomeSafe team actively promote the principles of Te Tiriti o Waitangi – The Treaty of Waitangi.

COMMUNITY ENGAGEMENT - TŪTAKITANGA HAPORI

36. No community engagement was required to complete this report. All teams – including HomeSafe – are responsible for the safety and wellbeing of our workers and community. Contractor management and requests for service from our community may require input and guidance from the HomeSafe team.

CLIMATE CHANGE – Impacts / Implications - NGĀ REREKĒTANGA ĀHUARANGI – ngā whakaaweawe / ngā ritenga

37. There are no impacts or implications on climate change, however we require regular re-evaluation of risks from the impact of increased extreme weather events.

CONSIDERATIONS - HEI WHAKAARO

Financial/Budget

38. While the financial implications related to this report will be met from within existing budgets, a thorough review of contractor management has identified opportunities for improvement in contractor assurance and verification.

Legal

39. HSWA and associated regulations introduced in 2016 are now fully embedded. Significant fines have been highlighted in the media for PCBUs who have not taken all reasonably practicable steps to mitigate health and safety risks. Any notifiable events have the potential to be investigated by the government regulator, WorkSafe.

POLICY and PLANNING IMPLICATIONS - KAUPAPA HERE me ngā RITENGA WHAKAMAHERE

40. There are no policy and planning implications to consider. Health, safety, and wellbeing are inherent in all areas of Council work.

RISKS - NGĀ TŪRARU

41. HSWA and its associated regulations require a PCBU to take all reasonably practicable steps to ensure the safety of its workers and other persons. There remains a risk to workers, Council reputation, and regulatory censure due to any unidentified or unknown risks or failure of workers to follow safe work procedures. Risks to Council workers' health and wellbeing have increased, compounded by COVID-19 and, more recently, significant weather events (Hale and Gabrielle), in addition to the increased cost of living. All known critical risks identified continue to be professionally managed.

NEXT STEPS - NGĀ MAHI E WHAI AKE

Date	Action/Milestone	Comments
12 June 2024	Next Committee Update Report	N/A

Title: 24-58 2024 - 2027 Three Year Plan Update
Section: Risk & Performance
Prepared by: Kim Everett - Corporate Planning Advisor
Meeting Date: Wednesday 13 March 2024

Legal: No

Financial: No

Significance: **Low**

Report to AUDIT & RISK/ĀRAI TŪRARU ME TE TĀTARI KAUTE Committee for information

PURPOSE - TE TAKE

The purpose of this report is to provide an update to the Committee on the 2024-2027 Three Year Plan (3YP).

SUMMARY – HE WHAKARĀPOPOTOTANGA

This project for the development and delivery of the 3YP commenced as the 2024 -2034 LTP in October 2022. Project management preparation, branding and engagement focused on the traditional LTP development and planning process. Following the Severe Weather Emergency Recovery (Local Government Act 2002—Long-term Plan) Order 2023 (SWERLA) on 7 September 2023, planning resumed and was adapted for the unprecedented development of the unaudited 2024-2027 3YP.

The 3YP is a resource intensive 'major' project for Gisborne District Council (as an affected local authority), to meet the legislative requirements on delivering our 2024-2027 Three Year Plan Consultation Document (CD) for community consultation and to adopt our 2024-2027 3YP document by 30 June 2024.

This is a Significant Internal Project with many cross-organisation deliverables requiring contribution from Council at all levels.

In accordance with SWERLA Order in Council, and as a legislatively recognised 'affected Council', Council is preparing an unaudited, three-year plan for 2024-2027 i.e. a long-term plan with a three-year horizon which still provides a strategic direction and basis for decision making in the medium term, despite uncertainty relating to funding and insurance payments. It also retains community consultation on the affected councils' intended direction for at least the next three years.

Despite the 3YP not being audited, we have approached the process with the same manner and due diligence as if it would have been audited.

This report provides a brief update on the 3YP project and a list of the key project risks and mitigations for these risks.

The decisions or matters in this report are considered to be of **Low** significance in accordance with the Council's Significance and Engagement Policy.

RECOMMENDATIONS - NGĀ TŪTOHUNGA

That the Audit & Risk/Ārai Tūraru me te Tātari Kaute Committee:

- 1. Notes the contents of this report.**

Authorised by:

Pauline Foreman - Chief Financial Officer

Keywords: 2024 – 2027 Three Year Plan, 3YP,

BACKGROUND - HE WHAKAMĀRAMA

Long Term Plan

1. The Long Term Plan (LTP) is Gisborne District Council's key strategic document. It outlines Council's priorities, projects and activities for the next ten years and how we will manage, deliver and pay for them.
2. The Local Government Amendment Act 2002 (LGA) requires all Councils to develop a ten-year LTP, which must be reviewed every three years to ensure it is relevant and accurate going forward into the next ten years.
3. There is a robust planning process demanded by the Local Government Act 2002 (part 6) when developing an LTP, so in consultation with our community Gisborne District Council (Council) must prepare a LTP every three years. Consultation is the primary means of engaging about important strategic and operational decisions.
4. Legislation requires that Council consider the interests of diverse communities and future, as well as current, communities when making decisions. Council must provide opportunities for Māori to contribute to the decision-making processes.

Three Year Plan

5. As a result of the severe weather events in 2023, the Government has allowed Gisborne District Council to prepare a 2024-2027 3YP instead of a 2024-2034 ten-year LTP to help Gisborne and Te Tairāwhiti focus on recovery.
6. On 7 September 2023, the Minister of Local Government agreed to an Order in Council (OiC) suspending the statutory requirement for a ten-year LTP for Gisborne District Council and seven other Councils [the Severe Weather Emergency Recovery (Local Government Act 2002 - Long-term Plan) Order 2023 (SWERLA)].
7. Government recognised that the level of cyclone damage has created uncertainty about costs, funding and the timing and extent of recovery work affected Councils need to do.
8. Affected Councils would struggle to develop the information and quality of engagement required to complete a 2024-2034 LTP while they are focused on recovering and rebuilding.
9. Instead, the Order allows Councils to prepare an unaudited, three-year plan for 2024-2027 i.e. a long-term plan with a three-year horizon which still provides a strategic direction and basis for decision making in the medium term, despite uncertainty relating to funding and insurance payments. It also retains community consultation on the affected councils' intended direction for at least the next three years.
10. The focus of three-year plans is on cyclone recovery while enabling and encouraging Councils to demonstrate, as far as practicable, the financial and service implications beyond 30 June 2027.
11. The three-year plan will help Gisborne and Te Tairāwhiti focus on recovery.
12. The 2024-2027 3YP will replace the 2021-2031 LTP as Council's primary strategic planning document.

13. Our next ten-year LTP will be created in 2027, with preparation and planning commencing in late 2024.

Development and Delivery of the 3YP

14. The development and delivery of the 3YP remains a significant undertaking for GDC across all our hubs and with many moving parts - and this time around things will need to be slightly different to how we usually do things.
15. A streamlined approach to delivering a fit-for-purpose three-year plan is now required.
16. Over the next three years, our primary focus will be on recovery which is likely to require the re-prioritisation of our planned programme of work, projects, and activities.
17. Council needs to determine their key strategic priorities for Te Tairāwhiti for the next three years with an emphasis on short to medium term recovery work and also allowing for political, social, economic, environmental and technological drivers.
18. In preparing the 2024-2027 3YP, Council has revisited our vision, community outcomes and strategic priorities to provide the strategic framework for the plan's development and for budget prioritisation discussions for the region's recovery over the next three years.

Our Strategic Framework

19. Our Strategic Framework (Tō tātau anga rautaki):



20. The Strategic Framework for the 2024-2027 3YP:

- Sets out the strategic priorities that determine what is important to focus on, invest in and deliver to achieve our community outcomes.
- Forms the Purpose and Vision, Community Outcomes and Strategic Priorities for our region for the next three years.
- Was developed from feedback provided by Councillors at three Strategic Framework workshops held on 18 October 2023, 2 November 2023 and 6 December 2023 respectively.
- Was adopted by Council on 14 December 2023.
- Will be woven through all the project workstreams, resulting documents and communications and is key for informing the development or revision of performance measures that track how Council is doing against what it sets out to achieve and helps prioritise projects.

21. The important strategic priorities identified by Council to focus our projects and activities on over the next three years and to complete our mission and achieve our vision are to:

- **Prioritise resilient waters.**

[Resilient waters include flood control and drainage, clean and clear rivers, water security, while also recognising the relationship between catchment planning, Tairāwhiti Resource Management Plan (TRMP), and addressing wood debris with urgency.]

- **Build resilient transport.**

[Resilient transport means infrastructure, roads, footpaths, bridges. It includes building back better, TRMP, connectivity and access and recognition that this is carried out in a SMART way (i.e. specific, measurable, achievable, realistic and timebound).]

- **Enable effective regulatory functions.**

22. Underpinning, and the foundation for all three strategic priorities, are the strategic relationships and clear direction/communications (for the Chief Executive, staff and community) and recognising the Strategic Priorities identified are for the next three years while acknowledging the importance to Te Tairāwhiti for the longer term priorities of climate change response (waste management, green organic waste, TRMP), community wellbeing/social and cultural infrastructure (self-sufficient communities, food security, TRMP).

2024-2027 3YP Development Roadmap

23. Development of the 3YP will occur in six phases, in conjunction with other processes such as Central Government reforms and three waters transitioning, which will present their own alignment challenges. The combination of these factors presents a degree of complexity to the development of this 3YP.

24. The Project Delivery Team is working to deliver the six phases and high level key deliverables of the 2024-2027 3YP Development Roadmap, as approved by Te Ranga Whakahau (TRW) on 6 November 2023 (and as per the Detailed Project Plan (DPP)) and as reported to Council at the Sustainable Tairāwhiti committee meeting on 29 November 2023 in report **23-295**:



25. The project phases for the development of the 2024-2027 3YP are:

Phase 1: Preparation: October 2022 - February 2023

Phase 2: Strategic Direction: June - November 2023

Phase 3: Investment Needed: October - November 2023

Phase 4: Prioritisation: November - December 2023

Phase 5: Consultation and Adoption: January - June 2024

Phase 6: Lessons Learnt: August - September 2024

26. The Project Delivery Team is currently working to complete Phase 4 (Prioritisation) and Phase 5 (Consultation and Adoption). The expectation is that Phase 5 will be completed with the adoption of the 3YP on 27 June 2024.

27. It is important to note that this project commenced as the 2024-2034 LTP in October 2022. Project management preparation, branding and engagement focused on the traditional LTP development and planning process. Following the SWERLA Order in Council on 7 September 2023, planning was resumed and adapted for the unprecedented development of the unaudited 2024-2027 3YP.

Significant forecasting assumptions

28. Council is required by the Local Government Act 2002 to identify significant forecasting assumptions which underpin the development of the 3YP. They form the building blocks to the development of strategies, policies and our plans. Draft significant forecasting assumptions have been prepared, previous versions have been share with Committee at Sustainable Tairāwhiti 29 November 2023 **[23-295]** and Council on 25 January 2024 **[24.3]**. The version of the assumptions received by Committee in November had also been introduced to all elected members at their 3YP workshop in October 2023, which included workshopping of the Environmental Scan **[23-239]**.
29. Attached are the Significant assumptions within **Attachment 1** (as was included with report [24.3]).

DISCUSSION and OPTIONS - WHAKAWHITINGA KŌRERO me ngā KŌWHIRINGA

30. Below are the key project risks where most of them were included within the reported to Council at the Sustainable Tairāwhiti committee meeting on 29 November 2023 **[23-295]**.
31. All deliverables within the workstreams are being tightly managed.

Project Risks

32. The Key risks identified to date (in no particular order of priority) are:

ID*	Risk & Impact Description	Rating	Mitigation Description	Owner
01	<p>Project milestones are not adhered to: causing reduced timeframes to deliver phases in the 3YP process,</p>	High	<p>Mitigated by:</p> <ul style="list-style-type: none"> Actively manage timeframes by regular workstream meetings to identify issues early and escalate them. The project has allowed small amount of contingency for milestone delays. Introduced a phased approach based on collaboration. Clear communication of purpose, process and deadlines - actively creating awareness among internal stakeholders, managing timeframes, identifying issues early. 	Te Ranga Whakahau
02	<p>External Funding including New Zealand Transport Agency (Waka Kotahi), is not in alignment with our forecasts</p> <p>Impact: Could result in a slower delivery of our programme</p>	High	<p>Mitigated by:</p> <ul style="list-style-type: none"> Projects within the budgets, are the most likely scenarios based on what is known at the time of being set. If funding significantly lower than plan the approach taken would be reprioritisation, slower delivery or projects delivered to extent of Council's share. 	Council, Te Ranga Whakahau

ID*	Risk & Impact Description	Rating	Mitigation Description	Owner
03	<p>Key staff are unable to complete critical path tasks (e.g. work load, shortage of skilled staff) and there is no back-up person.</p> <p>Impact: Loss of continuity, missed deadlines and delays</p>	High	<p>Mitigated by:</p> <ul style="list-style-type: none"> identifying workstream leads. Identify early and escalate where needed eg holidays. Encouraging staff to take leave at low pressure times. sharing the 3YP work programme across hubs. setting up SharePoint folders when collaboration is needed. 	<p>Identification-Project Delivery Team/ Risk and Performance Team</p> <p>Resourcing - hub directors</p>
04	<p>Inability to adequately resource multiple 3YP processes in parallel (e.g. Annual Plan, Annual Report, Year End and 3YP options prioritisation).</p> <p>Impact: slippage in delivering key programme milestones</p>	High	<p>Mitigated by:</p> <ul style="list-style-type: none"> early scheduling to ensure milestones are met. creating awareness and having an understanding of the capacity and system issues as well as non-negotiable milestone dates. 	Finance
05	<p>Unforeseen and unavoidable pandemic situations – further Severe weather events and COVID</p> <p>Impact: supplier and logistic challenges, unsafe and inappropriate working environment or a number of other issues that are not present when working in Council offices</p>	High	<p>Mitigated by:</p> <ul style="list-style-type: none"> Council having business continuity plans in place to ensure that we can continue to meet 3YP milestones. 	<p>Project Delivery Team/ Risk and Performance Team / Health & Safety</p>
06	<p>Uncertainty with central government-driven reforms – changes to legislation part way through the programme</p> <p>Impact: can result in resetting of programme milestone dates</p>	High	<p>Mitigated by:</p> <ul style="list-style-type: none"> keeping a close watch on progress made in this area. Close communication with Office of the Auditor General (via our auditors) for guidance and direction. 	<p>Project Delivery Team/ Risk and Performance Team / Strategic Planning</p>

ID*	Risk & Impact Description	Rating	Mitigation Description	Owner
07	<p>Central Government general elections in late 2023 – changes in parliamentary party.</p> <p>Impact: could result in change of policy directions</p>	Medium	<p>Mitigated by:</p> <ul style="list-style-type: none"> preparing 'what if' scenarios. Placeholder post-election workshop October 2023. By back up plans and alternative pathway if needed, taking the extension of time allowed for final adoption in these uncertain times (ie Three waters). Close communication with Office of the Auditor General (via our auditors) for guidance and direction. 	Project Delivery Team/ Risk and Performance Team / Finance/ Governance
08	<p>Community Consultation fatigue:</p> <p>Impact: less people are engaged with our Community Plan</p>	High	<p>Mitigated by:</p> <ul style="list-style-type: none"> Coordinated approach to consultation. Including all the other non 3YP consultations alongside 3YP so that we don't overload our stakeholders by engaging them ad-hoc. 	Te Ranga Whakahau

* number assigned to risk in 3YP Risk Register.

Decision Points and Timeframes

33. The key dates remaining for the development of the 3YP are listed in the table below:

Date *	Action/Milestone
<p>21 February 2024</p> <p>Finance & Performance</p>	<p>Approved to consult on:</p> <ul style="list-style-type: none"> Revenue and Financing Policy Rate Remission and Postponement Policy (including Remission of Rates on Māori Freehold Land) Fees and Charges Investment Policy Liability Management Policy
<p>28 February 2024</p> <p>Sustainable Tairāwhiti</p>	<p>Approved to consult on:</p> <ul style="list-style-type: none"> Financial Strategy Infrastructure Strategy
<p>13 March Audit & Risk</p>	3YP Update and Project Risks
<p>14 March</p> <p>Council Meeting</p>	<p>Approval to consult on:</p> <p>Development Contributions Policy</p> <p>Adoption of the 2024-2027 Three Year Plan Consultation Document together with the Communication and Engagement Plan</p>
<p>Weds 20 March to</p> <p>Fri 19 April 2024</p>	Formal consultation period.
<p>Weds 15 & Thurs 16 May 2024</p> <p>[Documented Peer Review from 23/4/CE approval 3/5]</p>	3YP Public Hearings.

Date *	Action/Milestone
30 May 2024 Sustainable Tairāwhiti OR 29 May 2024 Extraordinary Council meeting (tbc)	3YP Deliberations. Date and meeting TBC
12 June 2024 Audit & Risk	Closing Report on 3YP
27 June 2024 Council meeting	Adoption of the 2024-2027 Three Year Plan.

*These are the key dates the Project Delivery Team is working to as at the date of writing this report.

34. The date for the 3YP Deliberations may change, but at this stage the Sustainable Tairāwhiti (ST) Committee on 30 May 2024 has been earmarked.

ASSESSMENT of SIGNIFICANCE - AROTAKENGA o NGĀ HIRANGA

Consideration of consistency with and impact on the Regional Land Transport Plan and its implementation

Overall Process: Low Significance

This Report: Low Significance

Impacts on Council's delivery of its Financial Strategy and Long Term Plan

Overall Process: High Significance

This Report: Low Significance

Inconsistency with Council's current strategy and policy

Overall Process: Low Significance

This Report: Low Significance

The effects on all or a large part of the Gisborne district

Overall Process: Low Significance

This Report: Low Significance

The effects on individuals or specific communities

Overall Process: Low Significance

This Report: Low Significance

The level or history of public interest in the matter or issue

Overall Process: High Significance

This Report: Low Significance

35. The decisions or matters in this report are considered to be of Low significance in accordance with Council's current Significance and Engagement Policy.

36. Council's Significance and Engagement Policy is not being updated at the same time as the 3YP. The 2021 version remains the current version and is not required to be appended to the 3YP or the Long Term Plan.

37. The 3YP as a whole will trigger significant decisions and a special consultative procedure will occur when consultation is undertaken for the draft 2024–2027 3YP as required in the LGA.

TANGATA WHENUA/MĀORI ENGAGEMENT - TŪTAKITANGA TANGATA WHENUA

38. We will be working collaboratively with mana whenua throughout the development of the 3YP.
39. Iwi/hapū engagement will be undertaken as part of the formal consultation on Council's 2024–2027 3YP Consultation Document.

COMMUNITY ENGAGEMENT - TŪTAKITANGA HAPORI

40. Community engagement and consultation are integral to the Council's long term planning. However, many in the community have been directly or indirectly affected by this year's weather events and their ability to participate as part of Council's usual processes may still be restricted.
41. As a result, there will be no pre-engagement with the community for the 2024-2027 3YP. However, and as is legally required under the Local Government Act (LGA), consultation is expected to take place from 20 March to 19 April 2024 supported by a communication and engagement plan, including Council's approach to hearings.
42. The Communications Team is developing the branding, communication and engagement approach and key messages for the 2024-2027 3YP and Consultation Document that reflects and resonates with the Strategic Framework.

CLIMATE CHANGE – Impacts / Implications - NGĀ REREKĒTANGA ĀHUARANGI – ngā whakaaweawe / ngā ritenga

43. The implications of climate change have been identified within the environmental factors of the 2023 Environmental Scan where the environmental and infrastructure implications of climate change remain a significant issue for the Council, particularly given the region's vulnerability to natural hazards and sea level rise.
44. Ongoing regional planning will be required alongside the development of 'business as usual' considerations.

CONSIDERATIONS - HEI WHAKAARO

Financial/Budget

45. The adopted 2024-2027 3YP includes budget estimates for the next three years. The 3YP determines how much money should be collected via rates and how much funding should be allocated to particular activities.
46. The costs associated with the preparation and production of the 2024–2027 3YP have been budgeted for.

Legal

47. The Department of Internal Affairs consulted on an Order in Council to make eight temporary amendments to three local government Acts:
 - Local Government Act 2002.
 - Local Government (Rating) Act 2002
 - Local Government (Financial reporting and prudence) Regulations 2014.
48. On 7 September 2023, the Minister of Local Government/ Department of Internal Affairs agreed to suspend the statutory requirement for a 10-year, LTP for Gisborne District Council and seven other councils and to adopt a three-year, unaudited plan focusing on recovery instead.
49. The Local Government Act 2002 sets out the requirements relating to the 3YP Plan, including the content of the 3YP and the process to put it in place.
50. Council's project and work programme will ensure those requirements are met.
51. Legislation relating to the three waters services reform (the Water Services Entities Act 2022, the Water Services Legislation Act 2023 and the Water Services Economic Efficiency and Consumer Protection Act 2023) was repealed on 16 February 2024. Three waters services are therefore included within the 3YP as Council will continue to own and operate water services and will remain responsible for the delivery of water services.

POLICY and PLANNING IMPLICATIONS - KAUPAPA HERE me ngā RITENGA WHAKAMAHERE

52. The 3YP links a number of strategies, policies and plans.
53. The 3YP Strategic Framework set by Council will inform future strategy and policy development processes over the next three years, as well as the development of a number of other key Council documents.
54. The 3YP will determine Council's strategic direction for the next three years.
55. Council's next 10-year, Long Term Plan will be developed in 2027.

RISKS - NGĀ TŪRARU

56. Developing the 2024-2027 3YP contains many moving parts - careful project management, planning and sequencing will mitigate this risk. The legislated date of adoption is unmovable.
57. Project risks can be found under the Discussion and Options section of the report.
58. There are no major risks associated with the decisions or matters.

NEXT STEPS - NGĀ MAHI E WHAI AKE

59. See also the key dates remaining for the development of the 3YP as listed in the table in paragraph 35 above.

Date	Action/Milestone	Comments
12 June 2024	Closing Report to Audit & Risk Committee: 3YP Plan Update	Any changes before adoption of the final 3YP on 27 June 2024

ATTACHMENTS - NGĀ TĀPIRITANGA

1. Attachment 1 - Significant Assumptions [24-58.1 - 4 pages]

Attachment 1: Significant Forecasting Assumptions

Significant Forecasting Assumptions

This section sets out the key assumptions made in preparing the estimates for the 2024-2027 Three Year Plan (3YP).

Assumptions

The following information is provided in accordance with the New Zealand Accounting Standards Board Public Benefit Entity Financial Reporting Standing 42 Prospective Financial Statements (PBE FRS42).

CAUTIONARY NOTE

The 3YP contains prospective financial information. Actual results are, likely to vary from the information presented and the variations may be material.

Significant Forecasting Assumptions and Risks

Schedule 10 (Section 11) of the Local Government Act 2002 contains provisions relating to 'Significant forecasting assumptions'. The Act requires that Council identifies the significant forecasting assumptions and risks underlying the financial estimates. Where there is a high level of uncertainty, Council is required to state the reason for that level of uncertainty and provide an estimate of the potential effects on the financial assumptions. Council has made a number of assumptions in preparing this 3YP. These assumptions are necessary as the planning term for the 3YP is 3 years and the assumptions ensure that all estimates and forecasts are made on the same basis.

Asset Management Plans

Forecast figures in the 3YP relating to the management and enhancement of significant assets have been based on Council's Asset Management Plans.

Activities and Service Delivery Options

It has been assumed that the existing activities, services, and methods of delivery will continue, while providing for recovery efforts throughout the 3YP.

Interest

Interest rates on Council net debt is estimated to be 4.7% throughout the 3YP. Council covers its interest rate exposure using interest rate swaps. The interest rates are based on estimates of the 90-day bank bill rate and include bank margins and the effect of continuing use of interest rate swaps.

Inflation

The forecast financial information includes provision for inflation. Council has used forecasts of price level changes prepared by Business and Economic Research Limited (BERL) to calculate the inflation rate for each year of the Plan. The BERL rates were set in September 2023.

Forecast Returns on Investments and Strategic Assets

Council maintains a range of commercial and strategic investments. Council has forecast the return for significant investments and business units. Council is currently reviewing all its investments and strategic assets to ensure it is receiving an adequate rate of return. The Plan does not currently include any significant strategic or investment asset disposals.

External Funding

Included in the forecast financial statements are several operational and capital projects that are assumed to be partially funded by another agency or grant. There are several major projects to be funded by a combination of Council and external funding. Council has \$430m capital projects proposed for the term of the Plan of which \$84m is budgeted to be funded from grants, subsidies or donations. Waka Kotahi subsidies for Land Transport contribute \$214m over the three years.

There is a risk that sources of funds for some capital projects may not eventuate. It is assumed that if the external funds budgeted are not available then the project will be reviewed, and the availability of other funding sources will be assessed.

Depreciation

All assets, excluding those listed below, are assumed to be replaced at the end of their useful life. The following assets are assumed not to be replaced at the end of their useful life.

- Tolaga Bay Wharf.
- Patutahi Hall.

Council does not fund depreciation on these assets. Council does not fund depreciation on that portion of the Wastewater Treatment Plant (WWTP) Asset that was pre-funded before the start of the project. This equates to \$450k for Years 1 – 3, coinciding with the total amount collected from the capital rate.

The draft estimates assumes that not all the funding of depreciation will occur for the recently completed major projects – the Wastewater Treatment Plant, and Kiwa Pools. The 2021-2031 LTP phased and stepped the funding of depreciation over the life of the plan. For both the newly completed projects for the pool and the wastewater treatment plant the funded portion of depreciation covers at least principal repayments of the loan required for the build of the asset.

The draft estimates that not all of the revaluated (as at 30 June 2023) Three Water assets (Wastewater, Water supply and stormwater), depreciation costs will be funded. This follows the Annual Plan 2023/24 when it phased the funding of depreciation. Over the three years of the plan, funding depreciation will incrementally increase. As noted within the 2023/24 Annual Plan, the amount of funded depreciation still provides for more total funded depreciation for Three Waters, than what was previously provided for renewals within the 2021-2031 LTP.

Council does not fully fund the depreciation on its roading assets in the Forecast Financial Statements. It is assumed that a set proportion of the Land Transport capital expenditure will continue to be funded through Waka Kotahi financial assistance subsidies. It is therefore considered appropriate to only collect rates revenue on the portion of roading depreciation funded from Council reserves.

Council does not fully fund depreciation on some projects that were funded by external grants, the assumption being that in the future when the assets need to be replaced that external funds would be sourced. These include projects such as LiDAR, Navigations, Waingake Native Restoration, Library, and the War Memorial theatre. The amount of unfunded portion varies, depending on the nature of the asset and proportion of external funds were given to support the initial build. For instance, intangible assets (such as software) that was external grant funded are likely to have a higher degree of un-funding as the replacement asset at the end of its useful life is assumed to be of a significantly different nature to the original asset. Assets such as the War Memorial Theatre and Library are mostly funded, with a much smaller portion being unfunded (27%).

Waingake Native Restoration is a natural living asset, and by its nature will be replenishing and replacing itself through the active management of the forest. As such the portion of "depreciation" recognised has not been funded but the maintenance costs of the forest has been included with the plan. Council does not fund depreciation on the Airport assets as it is assumed that the Council lease of the Airport assets and operations will result in the assets being returned to Council at the end of the lease in the same condition as when the lease began. Useful lives of assets are as recorded in Asset Management Plans or based upon professional advice. Refer to the Accounting Policies Depreciation note.

There is a risk that some assets may wear out and fail sooner, or later than calculated. There is no certainty that asset components will last exactly their design lives. However, replacement is budgeted at the expected end of useful life and earlier replacement will result in a loss on disposal of any residual value. Earlier replacement may result in deferring other discretionary capital projects in order to remain within Council's borrowing limits set out in the Council Liability Management Policy.

Depreciation on Planned Assets Acquisitions

The depreciation rates and assumed useful lives for planned asset acquisition are assumed to follow existing rates; and in line with current policies.

Resource consents

All of Council's works projects require resource consents to be granted before works can commence. It has been assumed that resource consents can be obtained for all capital works, and that obtaining those resource consents will not significantly impact on the timing of the capital works shown in the plan.

It is also assumed that the currency and condition of the existing resource consents held by Council will not be altered significantly during the term of this plan.

Revaluation of assets

The forecast information includes an annual estimate to reflect the change in asset valuations and depreciation. The effect of the revaluations, is a best estimate based on historical values, forecast capital expenditure, the BERL inflation indices and recent valuation information.

The most recent valuation of Council's assets was Land, Buildings and Gisborne Airport/airside 30 June 2022; Roading infrastructure, utilities and flood assets are revalued annually. It is assumed revaluations will result in an increase in the asset values, revaluation reserves and the depreciation expense.

Reserves

It is assumed that some of the land acquired under the FOSAL category 3 voluntary residential property buyouts may be sold. Any proceeds will go into a Reserve (Reserve Contributions). They will be used to reduce or support the maintenance of the ongoing costs for the rest of the Category 3 properties.

Full information will be noted within Note 10 Special Funds and Other Reserve, in the draft 3YP.

	Opening Balance 1 July 2024 \$000s	Transfers to Reserves \$000s	Transfers from Reserves \$000s	Closing Balance 30 June 2024 \$000s
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Special Funds and Other Reserves

Reserves Contributions	135	2,056	0	2,191
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Title: 24-63 Insurance Strategy Update
Section: Risk & Performance
Prepared by: Andrew Haughey - Senior Procurement Advisor
Meeting Date: Wednesday 13 March 2024

Legal: No

Financial: Yes

Significance: **Low**

Report to AUDIT & RISK/ĀRAI TŪRARU ME TE TĀTARI KAUTE Committee for information

PURPOSE - TE TAKE

The purpose of this report is to advise the Audit & Risk Committee (ARC) the status of the Insurance Strategy and to provide progress updates on the five key strategic initiatives contained within the Insurance Strategy.

SUMMARY – HE WHAKARĀPOPOTOTANGA

The Insurance Strategy, adopted by the ARC on 22 September 2021, covers areas of Council risk exposure which can be shared with insurers. The Strategy outlines five key strategies to optimise insurance management arrangements for sustainable risk financing, subject to review every 3 years.

Management engages in a BOPLASS working group to explore methods for reducing premium costs while ensuring adequate coverage is in place. Regular insurance policy reviews are conducted during the annual renewal process.

The decisions or matters in this report are considered to be of **Low** significance in accordance with the Council's Significance and Engagement Policy.

RECOMMENDATIONS - NGĀ TŪTOHUNGA

That the Audit & Risk/Ārai Tūraru me te Tātari Kaute Committee:

- 1. Notes the contents of this report.**

Authorised by:

Pauline Foreman - Chief Financial Officer

Keywords: Insurance Strategy, BOPLASS, Aon, Insurance,

BACKGROUND - HE WHAKAMĀRAMA

1. The Insurance Strategy (the Strategy) was adopted on 22 September 2021 by ARC (Report **21-137**). The Strategy covers the risk areas of:
 - a. Property (First party asset exposures, including business Interruption).
 - b. Liability (Third party liability exposures).
 - c. Technology (First and third-party cyber exposures).
 - d. Retention (Risk tolerance, retained risk and available risk financing tools).
2. The Strategy identified five key strategies within the risk profiling process, which are to be reviewed and updated on a three yearly cycle, as shown in Figure 1 below:

Figure 1 Key Strategies

No.	Three Year Strategy with a review required in 2024/25 financial year	Risk Profile	Progress Update
1	Appropriate valuation methods for insurance.	Critical	Completed (Insurance Valuation are ongoing and occur every 3 years)
2	Undertake earthquake probable maximum loss assessment for infrastructure assets.	Critical	Underway (by June 2024 it will be completed)
3	Update insurance schedule and approaches. (e.g. low value property)	Major	Underway (by August 2024 it will be completed)
4	Review the risk retention. (or residual financial exposure)	Major	To commence next financial year
5	Review Enterprise Risk Management framework and processes.	Major	To commence next financial year

Key

Critical	Prioritize for first & second year of work plan. Impacts most significant policies by premium spend.
Major	Will be prioritized for second & third year of work programme.

DISCUSSION and OPTIONS - WHAKAWHITINGA KŌRERO me ngā KŌWHIRINGA

Insurance Updates




3. New for the Material Damage & Business Interruption (MDBI) policy, covering above-ground assets, the policy now includes a comprehensive loss limit for the BOPLASS group. The group has secured coverage totalling \$900 million, reflecting a strategic decision to ensure comprehensive protection for all eight Councils. If all BOPLASS Councils incur a significant loss the \$900m group policy is pro-rated (proportionate allocation) between the eight Councils.



4. There will be a review of our existing BOPLASS policies and our overall risk exposure, in light of Cyclone Gabrielle. This will include a review of the current policy that excludes significant critical bridges assets from our insurance material damage schedule. Up until this point, the lion share of reinstatement costs after an adverse event fell upon New Zealand Transport Agency and the costs of insurance did not warrant including roading assets under insurance schedules.
5. Practical experience has shown us from Cyclone Gabrielle:
 - Responding to an emergency and ensuring effective documentation to support subsequent insurance claims is problematic, given the priority to re-establish essential services. As a result, council's business continuity plans are being reviewed and updated.
 - Documentation to support the shared risk through 60% NEMA/40% the Insurer is challenging and time consuming given the different requirements each organisation requires and the demands on staff who were also trying to restore services under time pressures. We are reviewing how this can be carried out better in the future as a result.
 - These catastrophic events are driving up the costs in insurance to the point where Council is having to look increasingly at other options such as to take on more risk and self-insure for example the \$25K excess for above ground assets is likely to increase and that will mean Council assets that incurred damage below the excess will not be covered by insurance and cost Council directly.
6. In addition, reviewing the infrastructure maximum loss limit for the BOPLASS Group will ensure both council's loss limit and the BOPLASS group overall loss limit are keeping pace with current inflationary pressures. Council's infrastructure loss limit is currently \$250m and the BOPLASS group is at \$500m loss limit. If all BOPLASS Councils incur a significant loss the \$500m group policy is pro-rated (proportionate allocation) between the eight Councils.
7. NEMA claims are progressing well, and we are in discussions with Insurers on final claims, Council have received the first settlement sum from both NEMA and Aon. Further details will be provided as the discussions with Insurers continue.

Insurance Strategy Progress Updates

8. The 5 key strategies contained within the Insurance Strategy include recommendations to optimize insurance and risk management arrangements, ensuring long-term sustainable risk financing for the Council.
9. The Strategy is subject to review every 3 years, therefore is due for review in the 2025 calendar year.
10. This report provides progress updates as to the key strategies within the Insurance Strategy, as shown in Figure 1 (above). Below in **Table 1** shows the progress of these strategies, which indicates the Insurance Strategy is being implemented in accordance to plan.

Table 1 Insurance Strategy for 2023/24 financial year

Insurance Strategy	Risk Profile	Tasks	Activity	Status	Comments/Issues
Adopt appropriate valuation methods for insurance.	Critical	1.1	<ul style="list-style-type: none"> Use consistent methodology based on asset manager's knowledge and financial reporting. Completed insurance valuations 		<ul style="list-style-type: none"> Council will maintain engaging external valuation companies every three years to ensure insurance valuations are included with financial valuations for both above ground and below ground asset schedules. External insurance valuations have been completed and supplied to Council's broker to inform 2022/23 policy negotiations.
Undertake earthquake probable maximum loss assessment for infrastructure assets.	Critical	2.1 2.2	<ul style="list-style-type: none"> Assess Probable Maximum Loss from Earthquake Hazard to Infrastructure – 2022 RFP prepared by Council's broker. Ensure financial risk retention levels are both acceptable and tolerable. In response to content in completed report. 		<ul style="list-style-type: none"> This financial year, the Council will work with our broker to review the BoPLASS overall limit and then the individual limits for Council, updates to the Audit & Risk Committee when completed. The Final Loss Report by AON for financial losses resulting from earthquake damage to three-waters infrastructure assets was received in late January 2023 and recommended Council increase our loss limit to \$315m, for a 500yr likely (loss or damage) and \$484m for a 1000yr likely (loss or damage) Currently Council has a loss limit of \$250m and is reviewing
Update insurance asset schedule and approaches (i.e., low value assets).	Critical	3.1	<ul style="list-style-type: none"> Assess assets to determine whether to insure and, if insured, determine the appropriate basis of settlement (i.e. reinstatement, indemnity or declared conditions). 		<ul style="list-style-type: none"> The Council Material Damage Policy insures 200 Council assets ranging in value from \$20k to \$95m. This work is in progress to review the current insurance schedules and update any council assets over \$25K with key staff in Council. A framework will be designed before July with criteria to determine the basis for guidelines to inform future insurance decisions more consistently. Ensure that when capital works are completed that new assets are added to the Property Schedule immediately.

Insurance Strategy	Risk Profile	Tasks	Activity	Status	Comments/Issues
Review the financial threshold for Council for insurance purposes.	Major	4.1	<ul style="list-style-type: none"> Review the current process for assessing the costs and benefits of financial risk retention options and strategies, e.g., higher deductible levels, self-insurance of specific assets. 		<ul style="list-style-type: none"> Planned for 2024/2025 financial year. Council will work with our broker and key staff to review the financial risk retention levels for Council for insurance purposes
Review Enterprise Risk Management framework and processes for better insurance outcomes.	Major	5.1 5.2	<ul style="list-style-type: none"> Review current insurance risk and establish a benchmark. Review Enterprise Risk Management frameworks and processes with Council's managers, in line with Council's Risk Management Policy. 		<ul style="list-style-type: none"> Planned for 2024/25 financial year Engage our broker to review current insurance risk maturity and to establish a benchmark Develop an insurance risk strategy that leverages better insurance outcomes for Council by communicating a proactive approach to insurers

Status Key

	On track
	In Progress
	Not Started

ASSESSMENT of SIGNIFICANCE - AROTAKENGA o NGĀ HIRANGA

Consideration of consistency with and impact on the Regional Land Transport Plan and its implementation

Overall Process: **Low** Significance

Impacts on Council's delivery of its Financial Strategy and Long Term Plan

Overall Process: **Low** Significance

Inconsistency with Council's current strategy and policy

Overall Process: **Low** Significance

The effects on all or a large part of the Gisborne district

Overall Process: **Low** Significance

The effects on individuals or specific communities

Overall Process: **Low** Significance

The level or history of public interest in the matter or issue

Overall Process: **Low** Significance

11. The decisions or matters in this report are considered to be of **Low** significance in accordance with Council's Significance and Engagement Policy.

TANGATA WHENUA/MĀORI ENGAGEMENT - TŪTAKITANGA TANGATA WHENUA

12. No tangata whenua engagement was required to complete this report.

COMMUNITY ENGAGEMENT - TŪTAKITANGA HAPORI

13. No community engagement has been associated to this report.

CLIMATE CHANGE – Impacts / Implications - NGĀ REREKĒTANGA ĀHUARANGI – ngā whakaaweawe / ngā ritenga

14. Rising sea levels and extreme weather events are likely to impact future insurance premiums and availability of insurance cover. Over time, material damage insurance premiums are likely to continue to rise, or insurance may be withdrawn for the most at-risk areas.
15. Council may have to consider whether to continue to insure, to self-insure in some form, to accept higher excess levels or increase limits of liability or identify other forms of insurance to provide adequate insurance at an affordable cost.
16. Increased frequency of extreme weather events is likely to higher exposure to risk across our Council assets and operations.

CONSIDERATIONS - HEI WHAKAARO

Financial/Budget

17. Considering the expected increases in insurance premiums, management has engaged in a BOPLASS working group to explore alternative methods for reducing premium costs while ensuring adequate coverage remains intact. This initiative is integral to our ongoing insurance strategy. Management will provide a report on the outcomes of this group and present potential options for consideration at a forthcoming Audit & Risk Committee meeting.
18. The expenses associated with the premium must be carefully balanced against the potential financial impact of a future event that could have significant consequences.
19. Any losses which fall outside of the insured limit would need to be covered by loans and/or rating for. A level of headroom is held within debt to ratio limits to maintain an appropriate level of debt capacity should it be required to cover these losses.

Legal

20. There are no legal implications to this report.

POLICY and PLANNING IMPLICATIONS - KAUPAPA HERE me ngā RITENGA WHAKAMAHERE

21. Each insurance policy undergoes regular review both upon implementing the Insurance Strategy and during the annual renewal process.

RISKS - NGĀ TŪRARU

22. Updating the infrastructure loss limit has been delayed due to the broker dealing with the Auckland Floods and Cyclone Gabrielle claims. Delaying the new loss limit may pose a risk to the Council. Evidence from Cyclone Gabrielle, a Natural Catastrophe Event, showed that the projected cost to repair damaged sites was \$22 million, significantly below the \$250 million loss limit set by the Council.
23. Having necessary adequate insurance in place to protect against risk adverse events occurring that could result in unbudgeted financial costs to Council. If an uninsured event were to occur, it could potentially strain the Council's finances.

NEXT STEPS - NGĀ MAHI E WHAI AKE

Date	Action/Milestone	Comments
May 2024	Further engage with BoPLASS/Insurers on the development of alternative insurance options including the likes of a Parametric Policy.	Once all options have being developed to a point so a decision can be made, staff will report back to Audit & Risk Committee.
June 2024	Continue developing pricing options for 500- and 1000-year earthquake loss limits.	Staff will prepare a report to Audit & Risk Committee as soon as pricing options are available or are known.
June 2024	Continue Updating the Insurance Strategy including. Report on the earthquake probable maximum loss assessment for infrastructure assets.	Report back to Audit & Risk Committee with progress updates.

Title: 24-71 Ernst Young 2023-24 Audit Plan
Section: Finance & Affordability
Prepared by: Melanie Hartung Finance Manager
Meeting Date: Wednesday 13 March 2024

Legal: No

Financial: No

Significance: **Low**

Report to AUDIT & RISK/ĀRAI TŪRARU ME TE TĀTARI KAUTE Committee for information

PURPOSE - TE TAKE

The purpose of this report is to provide the proposed Audit Plan from Ernst & Young (EY) for Council's 2023/24 Annual Report.

SUMMARY - HE WHAKARĀPOPOTANGA

The Audit Plan covers the primary objectives of the audit, key components, scope, significant risks, accounting/audit matters and timing.

The focus of the audit is to give an independent report on an organisation's financial statements and service performance information. An audit provides reasonable assurance that the financial statements and service performance information are free from material misstatement. An audit is not intended to give absolute assurance or to detect all errors that may exist.

Council can raise matters of concerns relating with auditors. These matters can then be incorporated within the audit plan for a reporting year. This will allow Council's auditors to perform additional checks to make sure those areas of concern are represented fairly within the financial statements in terms of generally accepted accounting principles (GAAP) and reporting standards.

The Audit & Risk Committee is considered a forum for the auditors to identify, discuss and escalate any significant concerns that they may have about any aspects of the financial statements prepared by management.

The key focus area for the 2023/24 Annual Report the auditors have noted remain broadly consistent with the prior year. They are:

- Cyclone recovery and funding.
- Infrastructure assets.
- Integrity of rates strike, rates invoicing and collection.
- Grants and subsidies.
- Non-financial performance information reporting.
- Controls over expenditure, procurement and tendering; and
- Gisborne District Council (GDC) Group consolidation.

Key changes to the Audit Plan from 2022/24 include:

- Materiality threshold increased to \$5.4m (prior year was \$2.4m). The materiality level this year is now based on expenditure that appropriately reflects the level of Council's operations.
- Errors of no more than \$280k (prior year was \$120k) being reported to the Audit & Risk Committee. Higher than previous years it reflects the uplift in the operating tempo of Council.

EY Auditors Stuart Mutch (Partner) and Mark Gatpandan will be available during the Committee meeting to answer any questions that may arise from the Audit Plan.

The decisions or matters in this report are considered to be of **Low** significance in accordance with the Council's Significance and Engagement Policy.

RECOMMENDATIONS - NGĀ TŪTOHUNGA

That the Audit & Risk/Ārai Tūraru me te Tātari Kaute Committee:

1. Notes the contents of this report.

Authorised by:

Pauline Foreman - Chief Financial Officer

Keywords: Ernst Young, Proposed Audit Plan, Draft EY Audit Plan 2024

ASSESSMENT of SIGNIFICANCE - AROTAKENGA o NGĀ HIRANGA

1. The decisions or matters in this report are considered to be of **Low** significance in accordance with Council's Significance and Engagement Policy.

ATTACHMENTS - NGĀ TĀPIRITANGA

1. Attachment 1 - Draft 2024 Gisborne District Council EY Audit Plan [**24-71.1** - 20 pages]

Gisborne District Council

Audit Plan for the year ending
30 June 2024

Issued: 13 March 2024



Building a better
working world

WELCOME



Dear Audit and Risk Committee Members

We are pleased to present our Audit Plan ("Plan") for the audit of the financial statements and service performance information of Gisborne District Council ("GDC") and its controlled entities ("the Group") for the year ending 30 June 2024. This Plan outlines the scope of our services, identifies Ernst & Young ("EY") professionals that will serve you and presents our understanding of some key considerations that will affect the 30 June 2024 audit.

We conduct our audit in accordance with the Auditor General's auditing standards which incorporate International Standards on Auditing (New Zealand). Our audit will be conducted to provide reasonable assurance that the financial statements and service performance information for the year ending 30 June 2024 are free of material misstatement.

Our Plan has been prepared based on our understanding of GDC and the local government sector. We have considered, and will continue to consider, GDC's ongoing recovery from Cyclone Gabrielle, current and emerging operating risks and assess those that could materially affect the financial statements and performance reporting and align our procedures accordingly. The Plan will be responsive to your needs and will maximise audit effectiveness so we can deliver the high quality audit you expect.

Should you have any questions or comments, please do not hesitate to contact Stuart at stuart.mutch@nz.ey.com or on 027 489 9378.

Yours faithfully



Stuart Mutch
Appointed Auditor
13 March 2024



Mark Gatpandan
Manager

CONTENTS

02	Executive Summary	12	Your EY Team
03	Areas of Audit Focus	13	Engagement Execution
	Cyclone recovery and funding	03	
	Infrastructure assets	05	
	Integrity of rates strike, rates invoicing and collection	06	
	Grants and subsidies	07	
	Non-financial performance information reporting	08	
	Core controls over expenditure, procurement and tendering	08	
	GDC Consolidation	09	
10	Audit Approach		
	Digital Audit	09	
	Internal Control Environment	10	
			14
			Appendices
			A. Independence 15
			B. System of Quality Management 16

EXECUTIVE SUMMARY

AREAS OF AUDIT FOCUS



7

key focus areas identified that remain broadly consistent with the prior year.
 The areas of audit focus and the level of complexity or management judgement to be applied are:

- | | | | |
|---|---------------|---|---------------|
| ▶ Cyclone recovery and funding | HIGH | ▶ Non-financial performance information reporting; | MEDIUM |
| ▶ Infrastructure assets | HIGH | ▶ Controls over expenditure, procurement and tendering; and | LOW |
| ▶ Integrity of rates strike, rates invoicing and collection | MEDIUM | ▶ GDC Group consolidation. | LOW |
| ▶ Grants and subsidies | MEDIUM | | |

AUDIT APPROACH



Details of our audit approach are outlined on page 9. As in prior years where possible and deemed efficient, we will seek to test controls over the key financial statement processes.

\$5.4M

Our audit is planned to obtain reasonable assurance of detecting misstatements that we believe could be, individually or in aggregate, material to the financial statements and performance information.

PLANNING MATERIALITY



Our materiality threshold has been set at \$5.4m, being 2.75% of forecasted expenditure. We have switched our materiality setting to be based on expenditure this year since this appropriately reflects the level of Council's operations. We will report to the Audit & Risk Committee errors of more than \$280k. Whilst higher than previous years this reflects the uplift in the operating tempo of Council.

We will confirm our independence throughout the audit. We remain in compliance with the NZICA Code of Ethics and independence requirements of the Auditor General's auditing standards, which incorporate the independent requirements of PES 1 International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand).

ENGAGEMENT AND FEE



Our audit fees were set in early 2023 for the period 2023 to 2025. These fees form the basis of our costs over this period. We note though that in 2023 the time incurred working with the Council on matters associated with the impact of Cyclone Gabrielle and Councils work to recover from the Cyclone took longer than we had all forecast. This cost was not recovered from Council. Looking forward, the work required to understand additional spending, revenue streams and the impact on the infrastructure asset base will continue to be a key area of focus and audit effort in the 2023/24 financial year.

We will work with management to agree an appropriate response to the additional time required to provide assurance in relation to the impact of the cyclone within your financial and service performance reporting of Council for the 2024 year.

INDEPENDENCE



Cyclone recovery: Impact on Infrastructure and funding

Background

- ▶ Cyclone Hale and Gabrielle caused significant damage to the Tairāwhiti's land, infrastructure, economy and community. These weather events caused widespread flooding, landslips, and significant damage to infrastructure along the East Coast.
- ▶ Council has been playing a critical role in supporting its community through the recovery from the cyclone during the 2023/24 financial year. Whilst the immediate response in 2023 focused on re-opening the roading network and providing for the continuity of core services, particularly water, during 2023/24 planning and physical works has turned to restoration and rebuilding.
- ▶ As at 30 June 2023 Council, in conjunction with its consulting engineers and valuers made a range of assessments of the level of impairment or asset write-offs that had occurred across its land transport, water supply and flood control assets as a result of the cyclone. During the 2023 / 2024 financial year infrastructure costs incurred have related to a combination of restoring impairments and the cost of providing for the continued use of the land transport network in its damaged state. Bridges and significant stretches of rural roads continue to be impacted and impairments will still exist at 30 June 2024.
- ▶ Donations to the Gisborne Disaster Relief Trust continued during the year and funds built up by 30 June 2023 have been distributed in the period.
- ▶ Council continue to negotiate and discuss with Waka Kotahi the funding levels going forward of the continued restoration of the roading network. We have discussed the funding package provided by Central government on the next page.
- ▶ Council have a number of considerations to make including:
 - ▶ Assessment of the extent of impairment to the infrastructure base at 30 June 2024;
 - ▶ Decisions in relation to whether assets will be written off and not repaired which may directly impact service levels provided to the community;
 - ▶ Continued cashflow management and its ability to make upfront payments and claim these back from funding providers;
 - ▶ Capacity of contractors approved for Council works to complete remediation activities of the most affected areas in a timely manner; and
 - ▶ Appropriate coding of expenditure whether it is to be restoring impairments, creating increased service capacity (capex) or repair and maintenance expense

Planned Audit Approach

We will have ongoing discussions with Management and review key Council planning documents and assessments of the level of un-remediated damage to infrastructure ahead of 30 June 2024. Our audit procedures will include:

- ▶ We will review the impact assessment by Council in regard to the remaining impairment of core infrastructure assets versus what had been repaired by 30 June 2024.
- ▶ We will assess whether impairments are an appropriate reflection of the depreciated replacement cost of the assets damaged, even though the replacement cost of such assets may significantly exceed the depreciated replacement cost of what was damaged.
- ▶ Reviewing GDC's procedures for revenue recognition and monitoring the conditions of the Waka Kotahi funding streams directly focused on the recovery.
- ▶ Review GDC's approach to filing insurance claims for physical damage or losses of earnings at Council or within GHG's operations.
- ▶ Checking, on a sample basis, that expenditure is accounted appropriately as recovering impairment, capitalized asset or maintenance expense.
- ▶ Review the level of impairments of assets at 30 June 2024 as a part of the audit of infrastructure assets.
- ▶ Assess the disclosures in the annual report in relation to each funding agreement is in line with relevant accounting standards.
- ▶ We will engage separately to undertake the audit of the Gisborne Disaster Relief Trust .

Relevant accounting standards: PBE IPSAS 17 Property, Plant & Equipment, PBE IPSAS 23 Revenue from Non-Exchange Transactions

Level of complexity or management judgement: HIGH

Cyclone recovery: Central Government Package

Background

- ▶ During late 2023 the Crown and Council agreed on a package of funding to support the Districts recovery. Key elements of that funding included:
 - ▶ \$64 million of flood mitigation funding;
 - ▶ \$15 million towards the buyout of Category 3 properties;
 - ▶ \$30 million interest free loan to support Councils costs in relation to Category 3 buyouts; and
 - ▶ \$125 million for roading and bridge reconstruction
- ▶ Council also received \$30 million of funding towards the clearance of woody debris in late June 2023 and further funding to assist in this programme of work during 2023/24.
- ▶ Council have established processes to manage the Category 3 buyouts. This process includes valuations, negotiations, support, contractual arrangements and subsequent land management and demolition responsibilities.

Planned Audit Approach

We will design specific procedures to obtain assurance that the funding is being recognized and accounted for in an appropriate manner in consideration of Councils contractual obligations. Our procedures will include:

- ▶ Obtaining any agreements, amendments or correspondence between GDC and central government or other providers in respect of funding approved.
- ▶ Reviewing GDC's procedures for revenue recognition and monitoring the conditions of the various grants and funding streams.
- ▶ Review GDC's approach to Category 3 buyouts including the treatment of asset values post acquisition and the write-down of those assets to a value that is more aligned with the enduring use of those properties. We will also review the cost and accounting for demolitions.
- ▶ Checking, on a sample basis, that revenue is being recognised in line with obligations/undertakings being satisfied.
- ▶ Examining cost claims, on a sample basis, to check the expenditure is allowed to be claimed and is appropriate.
- ▶ For a sample of revenue recognised in the year across all grants, we will vouch receipt of funds to cash received.
- ▶ Assess the disclosures in the annual report in relation to each funding agreement is in line with relevant accounting standards.

Relevant accounting standards: PBE IPSAS 23 *Revenue from Non-Exchange Transactions*

Level of complexity or management judgement: HIGH

Infrastructure assets

Background

- ▶ Infrastructure assets represent a significant component of the Council's balance sheet with carrying values of the following amounts at 30 June 2023:

Assets	\$million
Roading	1,687.2
Three waters + flood control	421.3
Total	2,108.5

- ▶ We expect Council to undertake comprehensive impairment assessments as at 30 June 2024 to update the work undertaken in 2023 reflecting the damage to the assets as well as the restoration works performed as of balance date.
- ▶ Roothing assets are revalued annually by an independent third party, Stantec.
- ▶ Three water and flood control assets have a triennial full revaluation cycle. Full revaluations of these assets occurred as at 30 June 2022 and management intend to use an indexation method in reflecting any valuation movements to the asset values as at 30 June 2024.
- ▶ There is a risk that the useful life assumptions used in the valuations are not reflective of up to date information maintained in the Council's Asset Management Plans.
- ▶ Misclassification of maintenance and/or capital expenditure given nature and useful life of work completed is also a risk.
- ▶ The Three waters reforms continue to generate uncertainty following the change in government. At 30 June 2024 the Three water assets will continue to be recognised by Council.

Planned Audit Approach

- ▶ We will examine management's assessment for significant asset impairments and the resultant write-down of Council infrastructure assets.
- ▶ For roading assets, we will review the respective valuations for appropriateness and obtain a reliance letter from the independent valuers engaged by GDC. In particular, we will review key inputs to the valuation and consider valuation techniques for appropriateness as well as appropriateness of data used in valuation.
- ▶ We will assess the appropriateness of the indexation method used by GDC to assess fair value movements of infrastructure assets for the year to 30 June 2024, including the appropriateness of the rates used, validate source of indexation information, calculate the application of indexation used and ensure all applicable assets have been appropriately considered.
- ▶ For any asset classes that are not being revalued in the current year, we will examine the assumptions underlying the historical valuation against current asset management plans to assess whether the value remains materially correct.
- ▶ We will review the fixed asset reconciliation of underlying data to the general ledger with a focus on significant additions and disposals during the year.
- ▶ We will examine the appropriateness of depreciation against the estimated useful lives in the Council's accounting policies. We will also consider the useful lives included in the most recent valuations.
- ▶ We will test on a sample basis the classification procedures relating to capital, renewal and maintenance work as well as cut off at year end for capital works to check it is consistent with work completed at that point.
- ▶ We will test, on a sample basis, the accounting for significant additions and disposals of assets during the year.
- ▶ We will maintain a watching brief on the progress made by central government in relation to reforms and ownership change to three waters. We will work with Council to ensure appropriate disclosures are included in the financial statements.

Relevant accounting standards: PBE IPSAS 17 *Properties, Plant and Equipment*

HIGH

Level of complexity or management judgement:

86 of 101



Integrity of Rates Strike, Rates invoicing and collection

Background

- ▶ Rates income levied represents the Council's primary revenue source. There is specific legislation in place which must be adhered to for the rates set to be lawful. In the local authority context, failure to comply with rating law and the associated consultation requirements can create significant risks to the integrity of rates revenue.
- ▶ The requirement for there to be consistency between the rates resolution, Funding impact statement and the Finance Policy in the LTP is fundamental because this is the thread that links community consultation to the rates levied by GDC forming the core of the Council's revenue.
- ▶ The accuracy of a rates strike is dependent on the integrity of the rates database. The reliability of the rates billing system should ensure rates are billed appropriately.
- ▶ Recent legal challenges against certain local authorities have identified a range of issues relating to the legislative compliance, and therefore legality of rates sought.
- ▶ As part of the response to the impact of Cyclone Gabrielle, GDC has reviewed its rate remission and postponement policy. Provisions for rates remissions have been increased to directly address parts of the community who are still facing financial hardship due to severe weather events.

Planned Audit Approach

- ▶ We will review GDC's rate resolution for the financial year and its linkage to the Long Term Plan.
- ▶ We will review GDC's procedures for ensuring the rates set are compliant with the Local Government Rating Act and test that the rates set are being applied appropriately to the rating database and invoiced accordingly.
- ▶ We will test the controls over the rates levying process to assess whether these are operating effectively.
- ▶ On a sample basis, we will undertake a review of billing to specific ratepayers and subsequent collection.
- ▶ Certain rate paying groups represent a higher collection risk. We will examine any provision for doubtful rates debtors to consider whether it is appropriate in the circumstances.
- ▶ We will review GDC's rate remission policy including the process of determining the provisions for rates remissions applied to the affected residents.

Relevant accounting standards: PBE IPSAS 23 *Revenue from Non-Exchange Transactions*

Level of complexity or management judgement:

MEDIUM

87 of 101



Grants and Subsidies

Background

- ▶ Council receives Waka Kotahi / NZTA funding to subsidise costs associated with local roads. The funding assistance rate is typically 67% with higher amounts being available in certain circumstances such as for emergency works.
- ▶ Waka Kotahi provides emergency funding for roading damaged in such events, on an as-needed basis subject to approval based on estimated costs required. Such funding is provided on the basis the work will return the roads to the previous condition and not improve the level of service from the damaged road.
- ▶ In As discussed previously Council has received a package of funding from the Crown. It is important to understand what that funding is covering as compared to what can be claimed through normal processes with Waka Kotahi.
- ▶ A total of \$53m funding from the Central Government has been received for the removal of large woody debris from waterways.
- ▶ We expect Council will continue to receive significant additional funding to support its work in relation to Cyclone Gabrielle from both public and private sector organisations.



Planned Audit Approach

- ▶ Obtain new agreements, amendments or correspondence between GDC and the Crown in respect of funding approved.
- ▶ We will review GDC's procedures for revenue recognition and monitoring the conditions of the various grants.
- ▶ We will check, on a sample basis, that revenue is being recognised in line with obligations/undertakings being satisfied.
- ▶ We will examine cost claims to NZTA, DIA and MBIE, on a sample basis, to check the expenditure is allowed to be claimed and funding assistance rate applied is appropriate.
- ▶ For a sample of revenue recognised in the year across all grants, we will vouch receipt of funds to cash received.

Relevant accounting standards: PBE IPSAS 23 *Revenue from Non-Exchange Transactions*

Level of complexity or management judgement:

MEDIUM

Low Risk Focus Areas



Audit Approach



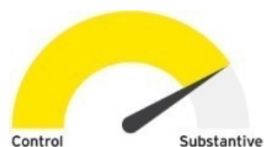
Areas of Audit Focus



Background



Planned Audit Approach

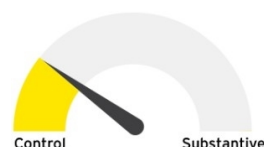


Non-financial performance information reporting

MEDIUM

- ▶ GDC is required to report its performance against levels of service expectations and performance measures included in the LTP. These measures are key to the Council providing a “performance story” to the community.
- ▶ Our audit opinion on the service performance information covers compliance with generally accepted accounting practice, and whether the service performance report fairly reflects the Council’s actual service performance for the period.
- ▶ We will select measures we deem significant across the group of activities for detailed testing in the context of our audit of the FY24 annual report. However, we will consider the entire performance report as part of our feedback to management.
- ▶ There is a risk of inadequacy of reporting systems to monitor performance and hence the potential failure to adequately report the provisions of core utility services to the public.

- ▶ Our audit procedures will focus on assessing completeness and effectiveness of GDC’s non-financial performance reporting.
- ▶ We will assess which areas of service provision have been significantly impacted by Cyclone Gabrielle and how Council are identifying this and recording amendments to they reported performance.
- ▶ We will update our understanding of key performance reporting processes and review methodologies applied by GDC.
- ▶ We will check, on a sample basis, the measures have been accurately reported on and outputs have been achieved where stipulated.
- ▶ Review mandatory performance measures stipulated by DIA and ensure all required measures have been appropriately included in GDC’s reporting.
- ▶ Provide feedback on the overall annual report and the summary annual report.



Core controls over expenditure, procurement and tendering

LOW

- ▶ Appropriateness of Councillor and management expenditure is an area of interest to ratepayers.
- ▶ Council’s capital works procurement programme involves significant cash flows and complex long term contract management.
- ▶ Areas of expenditure such as travel, accommodation, training and catering can present opportunities for personal benefit (or perceived personal benefit).

- ▶ In considering expenditure and procurement, we will review Council’s policies to check if there is adequate guidance regarding the procedures for handling sensitive expenditure and conflicts of interest within the organisation and policies are consistent with best practice guidelines issued by the OAG in 2020. This includes the following types of expenses; travel, training, consultant fees, use of credit cards and Councillor expenses.
- ▶ We will update our understanding of Council’s procurement and contract tendering processes and testing on a sample basis contracts procured during the year follow policies appropriately.
- ▶ We will review, on a sample basis, expenditure and credit card statements of councillors and management and checking expenditure is appropriate and in line with Council Policies.



Low Risk Focus Areas



Audit Approach



Areas of Audit Focus



Background



Planned Audit Approach



GDC Group Consolidation

LOW

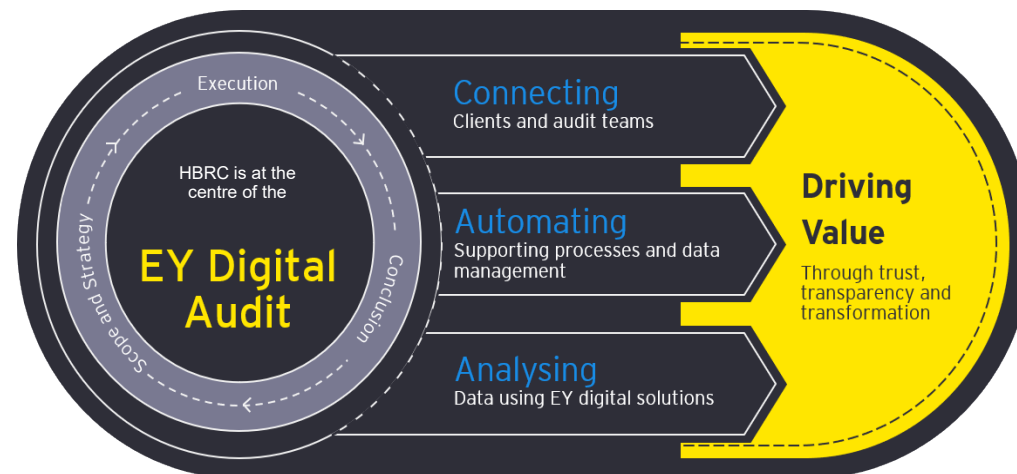
- ▶ GDC is the sole shareholder of Gisborne Holdings Limited (GHL) and therefore are required to consolidate GHL and prepare Group financial statements in line with PBE IPSAS 6.
- ▶ GHL is a for profit entity and prepares their stand-alone financial statements in line with IFRS for-profit accounting standards.
- ▶ There is a risk that GHL have incurred physical damage to land, buildings and the loss of operational earnings. Insurance is maintained in relation to such losses.
- ▶ Consolidation for GDC is required to translate differences in accounting treatment of GHL to Public Sector PBE accounting standards and eliminate any inter-entity transactions between GDC and GHL.
- ▶ There is a strategic review of GHL which has been underway since FY22, to assess the scope and purpose of the entity and the appropriate structure going forward.

- ▶ As a part of our audit of GHL we will assess the impact that Cyclone Gabrielle has had on the company's performance and the insurance claims made and received.
- ▶ We will update our understanding of the consolidation process for GDC group accounts.
- ▶ We will review all material consolidation journals posted for completeness and accuracy, in line with GDC's accounting policies and PBE IPSAS 6.
- ▶ As part of our review of the financial statements we will ensure Group disclosure requirements are appropriately reflected.
- ▶ We continue to discuss with management the future of GHL and will consider any changes in this space and any resultant impact of the annual report.

Digital Audit Approach

Your purpose built digital audit for now, next and beyond

Digitalisation is one of the most important drivers of transformation, especially in these changing times. This is also an important transformation in the auditing profession where it continues to be critical for entities to share trustworthy and readily available financial information for stakeholders.

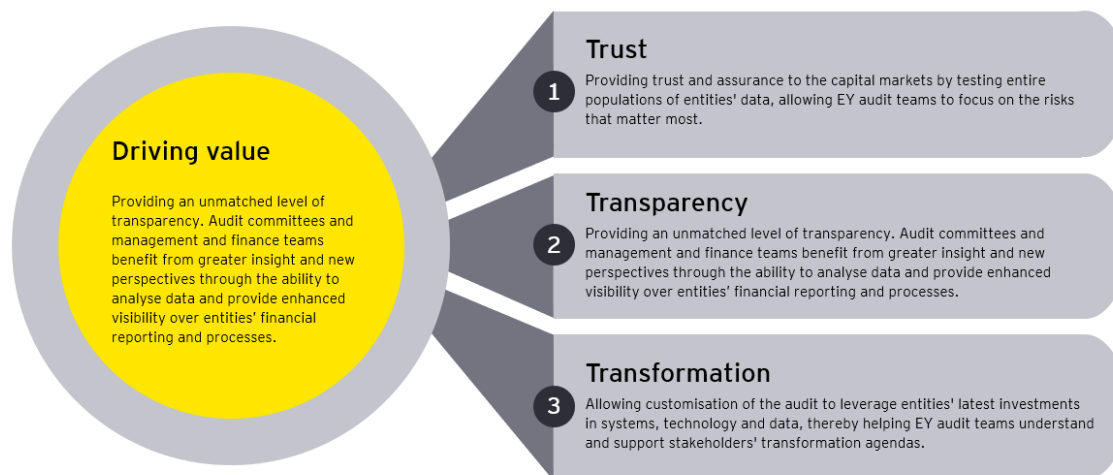


Data-driven Audit

In June 2022, [EY announced an investment of more than US\\$1bn in new technology](#), with a sustained focus on maintaining the highest-level of audit quality, promoting confidence in business and the capital markets, and providing for a scalable and right-sized audit that aligns with entities' transformation agendas.

As the first 12 months of this four-year assurance technology investment program was completed, [EY released more than 20 new major Assurance technology capabilities](#) to integrate advanced technologies into one seamless platform and drive transformation through the next generation of data access capabilities and advanced analytics; Artificial Intelligence (AI); and an elevated user experience. This transformation is supporting 500,000 EY professionals and external users, powered by Microsoft Azure.

With the EY Digital Audit analysing large or full sets of data from our clients' data population, we are responsive to the changing risk profiles of our clients. This helps establish trust, not just in our clients' financial reporting but also in the capital markets as a whole.



Internal Control Environment

The primary responsibility for the design and operating effectiveness of the internal control environment, including the prevention and detection of fraud and error, rests with those charged with governance and management.

We obtain an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit is not designed to express an opinion on the effectiveness of internal control we are required to communicate significant deficiencies in internal control to you.

Our assessment of internal controls covers:

- ▶ The control environment including entity level controls
- ▶ GDC’s risk assessment procedures
- ▶ The design and operating effectiveness of internal controls (including IT general controls)
- ▶ Monitoring of controls (internal audit and self-assessment)

We provide management with a report on control findings during the audit process, outlining our findings and our recommendations on where improvements in internal controls can be made. Where significant deficiencies come to our attention, we will communicate these to the Committee.

Assessing the Risk of Fraud

Our responsibility as the external auditor is to consider the risk of fraud and the factors that are associated with it so as to provide reasonable assurance that the financial statements are free from material misstatement resulting from fraud. However, it is important to note that while our external audit work is not primarily directed towards the detection of fraud or other irregularities, we will report any matters identified during the course of our work.

When developing our Audit Plan we use professional judgement in determining whether a fraud risk factor is present. We determine fraud risk factors in the context of the three conditions generally present when fraud occurs (i.e., incentive/pressure, opportunity and attitude/rationalisation).

Controls Reliance

Set out below is the level of controls reliance we expect to achieve over the key financial statement process. In the course of any audit, there are areas where a controls reliance approach is not appropriate and where a substantive audit approach is more efficient or effective.

Process	Internal Control
Financial statement close process	
Other revenue (fees and subsidies)	
Non-financial performance reporting	
Infrastructure assets management	
Rates setting and collection	
Expenses and payables	
Treasury	
Property buyout	

Your EY Team

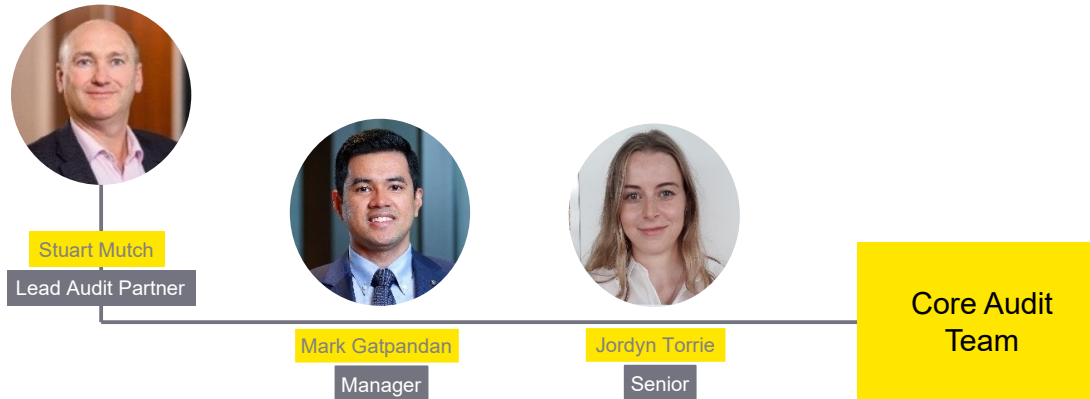
We understand that our team is the most important element of your relationship with us.

Key members of our team have been involved in the audit of Gisborne District Council for a number of years. Stuart Mutch will continue as engagement partner. Stuart brings 29 years of experience in auditing local authorities to the engagement. In addition to his sector experience, Stuart is the engagement partner for Hastings District Council and Central Hawkes Bay District Council and will bring insights from across all these entities as to how the recovery from Gabrielle is being managed and accounted for.

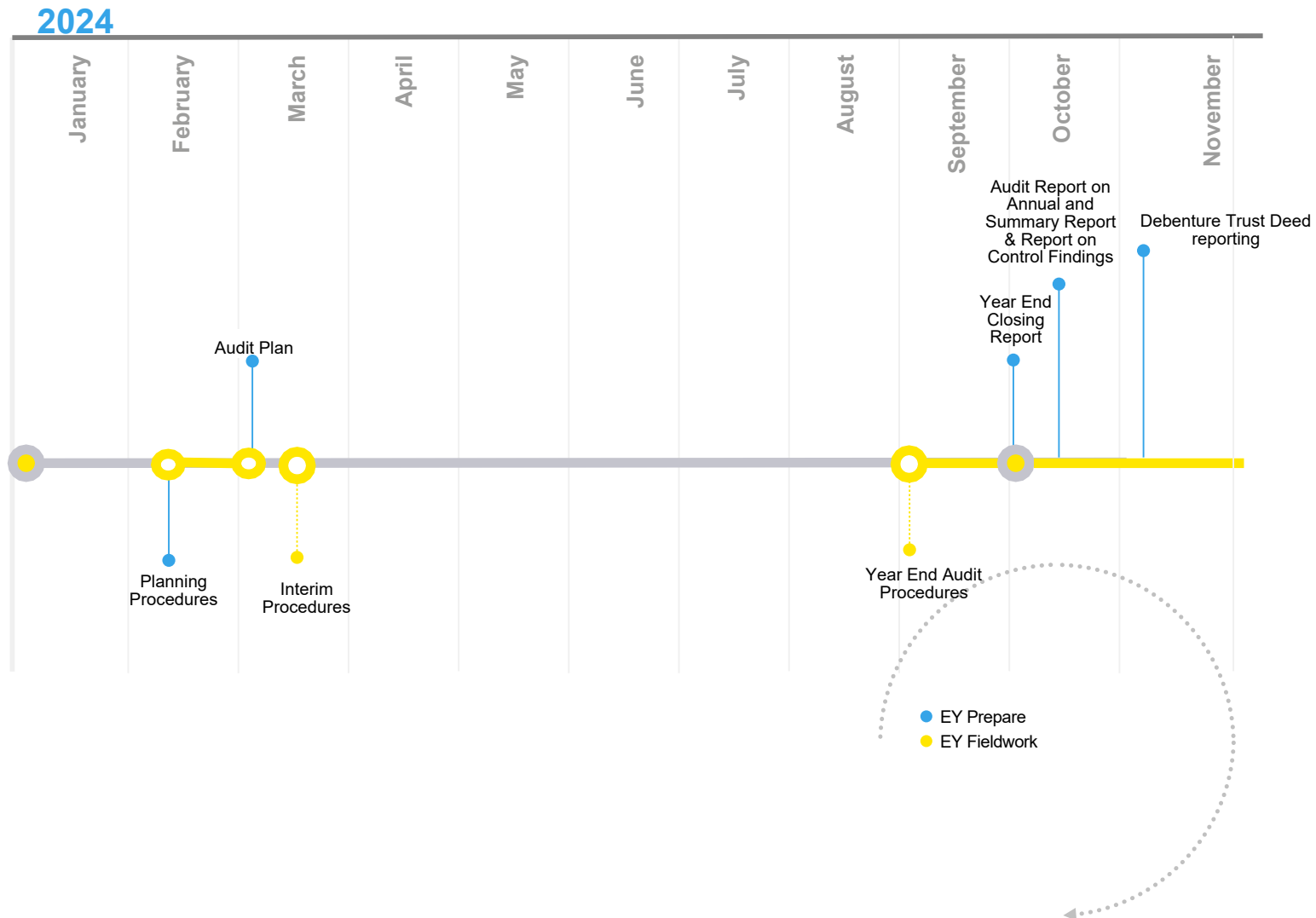
To balance workloads we have re-orientated Kaylene Sheltons client portfolio. Mark Gatpandan who worked as an audit senior on the engagement in 2022 returns to the audit as audit manager in 2024. Kaylene remains a part of our audit team and will work with Mark to transition the audit engagement manager role to him ahead of 30 June 2024. Jordyn will return to the team for her fourth successive year on the engagement.

This stability provides GDC with continuity, historical knowledge of your organisation and industry expertise. These combined factors enable us to focus on the significant issues relevant to your organisation.

Throughout the audit process, Stuart and Mark will attend the Audit and Risk Committee meetings and are available to meet the Committee or the Council at any time during the year. Stuart is available to meet with the Audit and Risk Committee Chair prior to each meeting.



Engagement Execution



APPENDICES

A. Independence

15

B. System of Quality Management

16

A. Independence

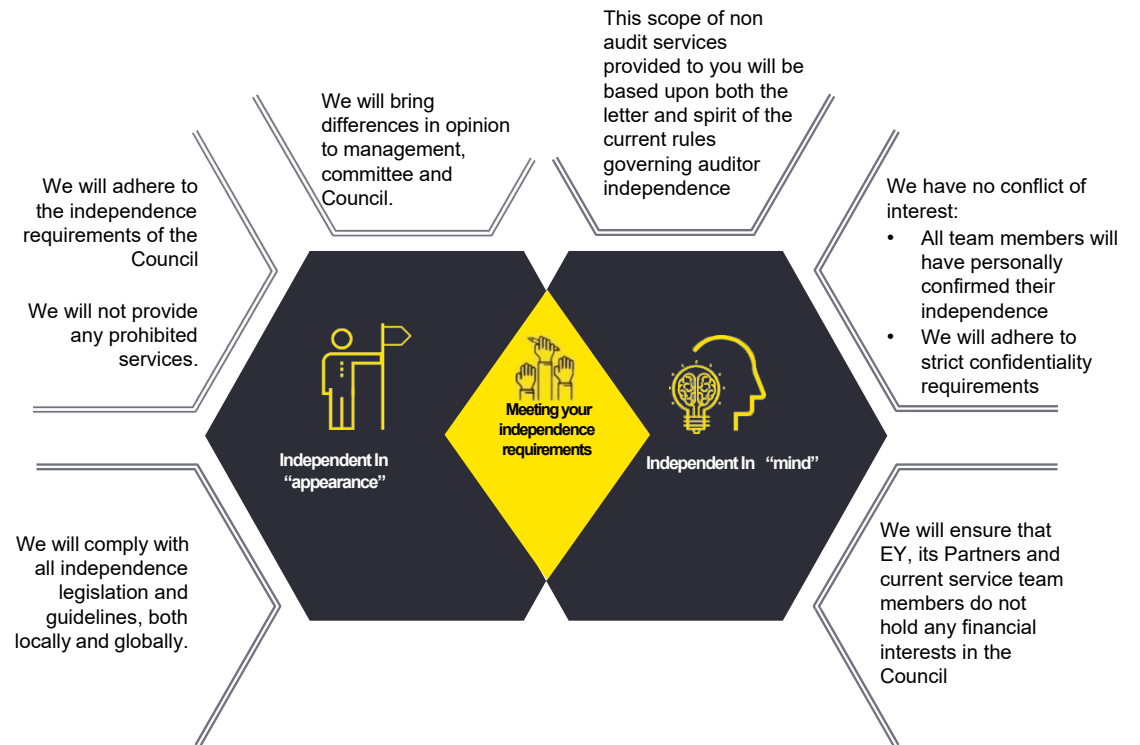
Independence is fundamental to EY as our ongoing reputation and success is connected to our ability to meet both the Council's and broader regulatory independence requirements.

We have consistently complied with all professional regulations relating to auditor independence including those outlined in:

- ▶ PES 1 International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)
- ▶ Independence requirements of the Office of the Auditor-General

Accordingly, we ensure that there are controls in place and actions taken on a regular basis that mitigate any risks to our independence.

There are no matters that, in our professional judgement, bear on our independence which need to be disclosed to the Audit Committee.



B. System of Quality Management

International Standard on Quality Management 1 (ISQM 1) overview

EY's approach to quality management

Professional and Ethical Standard 3 ("PES 3", which is the NZ version of ISQM 1) is applicable to all firms that perform audits and other similar engagements. As a result, we are required to design, implement and operate a system of quality management ("SQM") to provide reasonable assurance that:

- ▶ The firm and its personnel fulfil their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements
- ▶ Engagement reports issued by the firm or engagement partners are appropriate in the circumstances

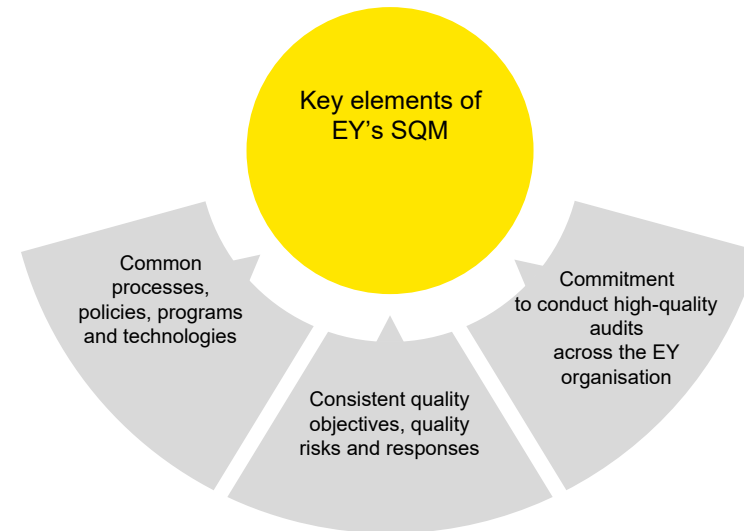
We are also required to monitor, remediate and annually evaluate the SQM as well as communicate to those charged with governance how the SQM supports the consistent performance of quality engagements. The following slides explain our approach and the results of our most recent assessment.

Individuals with SQM roles have the appropriate experience, knowledge, influence and authority, and sufficient time to fulfil their System of Quality Management roles and are accountable for fulfilling their responsibilities.

Key roles within the SQM include:

- ▶ The Country Managing Partner: assigned ultimate responsibility and accountability for the SQM by concluding on its effectiveness.
- ▶ The Country Assurance Managing Partner: assigned operational responsibility for the System of Quality Management. This includes recommending the System of Quality Management annual evaluation conclusion to the Country Managing Partner.
- ▶ The Country Independence leader: assigned operational responsibility for compliance with independence requirements.
- ▶ The Country Professional Practice Director: assigned operational responsibility for monitoring the SQM including concurring with or proposing changes to the recommended SQM annual evaluation conclusion.

EY is dedicated to delivering high-quality audits and assurance engagements and serving the public interest.

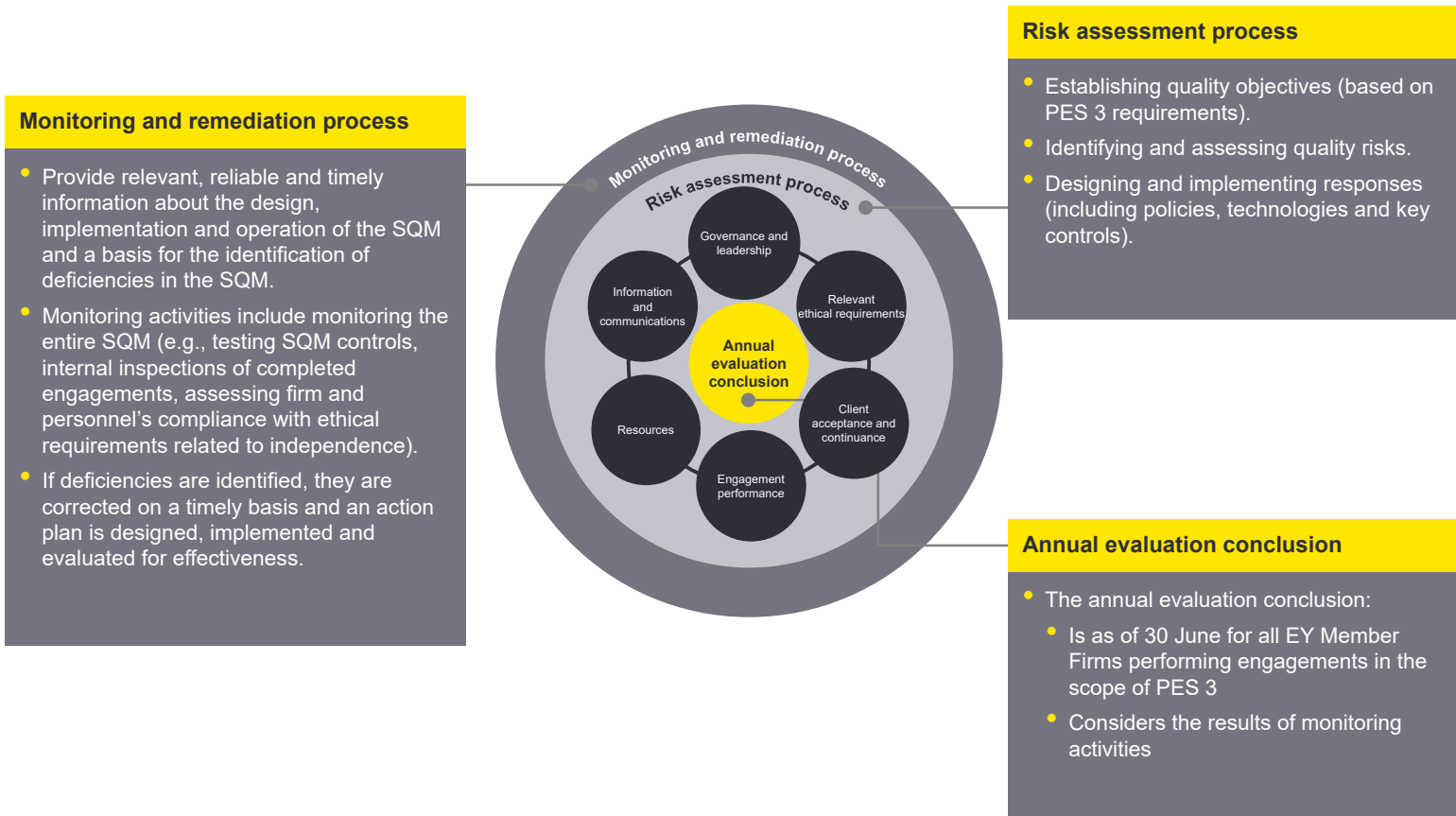


EY New Zealand is ultimately responsible for the design, implementation, and operation of their SQM, and have the responsibility to:

- ▶ Evaluate policies, technologies, strategies, programs and baseline elements provided to them, and
- ▶ Determine if they need to be supplemented by the firm to be appropriate for use

B. System of Quality Management (cont.)

SQM processes to support quality audits



B. System of Quality Management (cont.)

SQM annual evaluation conclusion **Effective**

The annual evaluation conclusion for EY New Zealand is that that the objectives of the System of Quality Management are being achieved as of 30 June 2023 and that they support the consistent performance of quality audits and related engagements.

Note: In the context of the annual evaluation of the SQM, EY New Zealand refers to the following member firms performing audits or reviews of financial statements or other assurance or related services engagements: Ernst & Young (partnership), Ernst & Young Limited and Ernst & Young Strategy and Transactions Limited.

EY | Building a better working world

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