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**ORDINARY MEETING**

**OF**

**FINANCE, AUDIT AND RISK MANAGEMENT SUBCOMMITTEE**

**AGENDA**

**Time:** 1:00pm  
**Date:** Wednesday, 13 June 2018  
**Venue:** Committee Room 1  
Ground Floor, Council Offices  
101 Wakefield Street  
Wellington

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**MEMBERSHIP**

Mayor Lester  
Councillor Calvert  
Councillor Foster (Chair)  
Councillor Free  
Peter Harris (External)  
Phillippa Smith (External)  
Roy Tiffin (External)

**Have your say!**

*You can make a short presentation to the Councillors at this meeting. Please let us know by noon the working day before the meeting. You can do this either by phoning 803-8334, emailing [public.participation@wcc.govt.nz](mailto:public.participation@wcc.govt.nz) or writing to Democratic Services, Wellington City Council, PO Box 2199, Wellington, giving your name, phone number and the issue you would like to talk about.*

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## **AREA OF FOCUS**

The Finance, Audit and Risk Management Subcommittee provides objective advice and recommendations regarding the sufficiency, quality and results of assurance on the adequacy and functioning of the council's financial processes, risk management, control and governance frameworks and processes. It is also responsible for exercising active oversight of all areas of the Council's control and accountability in an integrated and systematic way.

The Finance, Audit and Risk Management Subcommittee has responsibility for assisting the Council to discharge its responsibilities for:

- the robustness of the internal control framework and financial management practices;
- the integrity and appropriateness of internal and external reporting and accountability arrangements;
- the robustness of risk management systems, processes and practices;
- the independence and adequacy of internal and external audit functions;
- compliance with applicable laws, regulations, standards and best practice guidelines; and
- the establishment, maintenance and effectiveness of controls to safeguard the Council's financial and non-financial assets.

In fulfilling their role on the Finance, Audit and Risk Management Subcommittee, members shall be impartial and independent at all times.

**Quorum:** 3 members (at least one external member must be present for a quorum to exist).

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## **1 Meeting Conduct**

### **1.1 Apologies**

The Chairperson invites notice from members of apologies, including apologies for lateness and early departure from the meeting, where leave of absence has not previously been granted.

### **1.2 Conflict of Interest Declarations**

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

### **1.3 Confirmation of Minutes**

The minutes of the meeting held on 7 March 2018 will be put to the Finance, Audit and Risk Management Subcommittee for confirmation.

### **1.4 Items not on the Agenda**

The Chairperson will give notice of items not on the agenda as follows:

***Matters Requiring Urgent Attention as Determined by Resolution of the Finance, Audit and Risk Management Subcommittee.***

1. The reason why the item is not on the agenda; and
2. The reason why discussion of the item cannot be delayed until a subsequent meeting.

***Minor Matters relating to the General Business of the Finance, Audit and Risk Management Subcommittee.***

No resolution, decision, or recommendation may be made in respect of the item except to refer it to a subsequent meeting of the Finance, Audit and Risk Management Subcommittee for further discussion.

### **1.5 Public Participation**

A maximum of 60 minutes is set aside for public participation at the commencement of any meeting of the Council or committee that is open to the public. Under Standing Order 3.23.3 a written, oral or electronic application to address the meeting setting forth the subject, is required to be lodged with the Chief Executive by 12.00 noon of the working day prior to the meeting concerned, and subsequently approved by the Chairperson.



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## **2. General Business**

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### **SUBMISSION ON PROPOSED ACCOUNTING STANDARD**

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#### **Purpose**

1. The purpose of this report is to discuss the Council's proposed submission to the International Public Sector Accounting Standards Board (IPSASB) regarding the exposure draft related to accounting for leases and disclosing them in the financial statements.

#### **Recommendations**

That the Finance, Audit and Risk Management Subcommittee:

1. Receives the information.
2. Approves the submission for sending to the International Public Sector Accounting Standards Board.

#### **Background**

2. An exposure draft has been released by the IPSASB related to the accounting for leases and how to disclose them in the financial statements.
3. The exposure draft proposes changes in accounting for leases for both lessors and lessees including the removal of the current operating and finance lease distinctions.
4. The exposure draft also covers accounting for "concessionary leases" being leases at below market terms. This requires the lease to be measured at fair value based on estimating the value of the lease if it were on market terms.
5. The Local Government Act 2002 requires the Council to comply with New Zealand generally accepted accounting practice (NZ GAAP) when preparing the financial statements within the Annual Report. NZ GAAP is defined as being the accounting standards set by the XRB (External Reporting Board).
6. The accounting standards for public sector organisations, such as the Council, are based on International Public Sector Accounting Standards. This means that any exposure drafts released by the IPSASB, while not immediately applicable for the Council, are of interest for the future of New Zealand accounting standards and will impact on Council's future financial statements.

#### **Discussion**

7. The exposure draft released by the IPSASB proposed a change in accounting for leases for both lessors and lessees. It proposes to remove the current operating and finance lease distinctions and replace this with a single "right-of-use" model.
8. There is an exemption available for "short-term" leases which is where the lease term is less than 12 months.

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9. The right-of-use model involves calculating the fair value of the lease contract and putting this on the balance sheet as an asset.
  10. For the lessor this means that it retains control of the underlying asset and continues to recognise this on the balance sheet. In addition to this it also recognises a lease receivable asset representing the right to receive lease payments over the term of the lease. The lessor will also recognise a liability for the unearned portion of the lease revenue.
  11. For the lessee this means that it will recognise a right-of-use asset representing the value of the lease contract. It will also recognise a liability for its total lease payments over the lease term. No lease expense is recognised in the lessee's accounts; instead the right-of-use asset is depreciated over the lease term.
  12. There are also new requirements for the accounting for concessionary leases, being leases at below market terms. These leases are measured at fair value and the transactions have an exchange and non-exchange component.
  13. The non-exchange "subsidy" portion is recognised on day one as subsidy revenue (lessee) or expense (lessor) and represents the difference between the lease value based on market terms and the lease valued based on actual terms.
  14. The full proposed submission is attached to this paper.
  15. This submission is in line with Auckland Council's submission to the International Public Sector Accounting Standards Board.

### Next Actions

16. Send submission to International Public Sector Accounting Standards Board.

### Attachments

Attachment 1. [Submission on ED64 Leases](#) [↓](#)

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Author	Richard Marshall, Manager Financial Accounting
Authoriser	Andy Matthews, Chief Financial Officer



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## **SUPPORTING INFORMATION**

### **Engagement and Consultation**

There are no requirements to consult on the issues raised in this paper or report.

### **Treaty of Waitangi considerations**

There are no specific Treaty of Waitangi considerations.

### **Financial implications**

There are no new financial implications arising from this paper.

### **Policy and legislative implications**

There are no new policy or legislative implications arising from this paper.

### **Risks / legal**

There are no new risks or legal implications arising from this paper.

### **Climate Change impact and considerations**

There is no climate change implications arising from this paper.

### **Communications Plan**

No communication plan is required for this paper.

### **Health and Safety Impact considered**

There are no impacts on Health and Safety.

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**Appendix 1 – Wellington City Council’s comments on IPSASB ED 64 leases**

***Accounting for leases – right of use asset for lessees***

In principle the concept of having a right of use asset from a lessee point of view makes sense. By entering into the lease arrangement the lessee has the right to use an asset over a period of time in return for lease payments. The liability represents the present value of the lease payments and in our opinion presents the readers of the accounts with useful information.

We are of the opinion that the right to use assets should be presented separately to other assets in the notes to the financial statements to distinguish them from normal purchased assets.

***Accounting for leases – right of use asset for lessors***

We are supportive of using the right of use model for lessor accounting so it is consistent with the treatment for lessees.

***Accounting for leases – departure from IFRS 16 for lessor accounting***

We support the departure from IFRS 16 which means that the lessor and lessee accounting are done on a consistent basis using the right of use model. We believe that it would be confusing for readers of the accounts to have two entities accounting for the lease in different ways and it would also make consolidation between groups of public sector entities unnecessarily complicated.

***Accounting for leases – concessionary leases***

The accounting for concessionary lease in the ED requires the lease to be measured at market value in order to separate out the exchange and non-exchange portions of the lease. While in principle this would seem like a good idea, in practice it could be a complicated and expensive process, especially if there are lots of leases involved, as it would likely require the expertise of external valuers. For the Council in particular we have many of these types of leases to community groups and not for profit organisations but the values of the lease payments are usually small. These leases often involve heritage assets, limited or restricted use assets or restricted land and are often to non-commercial organisations. We will certainly be looking to work with our auditors to determine whether any of these leases are material enough (individually or in aggregate) to warrant the additional time and cost of calculating the market value.

We also feel that any non-exchange portion i.e. the subsidy should be spread over the term of the lease and not recognised on the commencement of the lease. This is because in substance by entering into a lease at below market terms the Council is

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agreeing to provide an annual “subsidy” to the lessee. This means that we can recognise, on an annual basis, the value that we provide to these community organisations. Recognition on commencement of the lease results in the potential for large year on year fluctuations in the statement of financial performance which are non-cash in nature and we believe this would be difficult for readers of the accounts to understand.



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## TE AHO MARUTAU | INTERNAL AUDIT CHARTER

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### Purpose

1. The purpose of this report is to discuss the purpose, responsibilities and authority of Te Aho Marutau Internal Audit.

### Recommendations

That the Finance, Audit and Risk Management Subcommittee:

1. Receives the information.
2. Agrees the Te Aho Marutau Internal Audit Charter.

### Background

2. The Internal Audit Charter is a formal document that defines Internal Audit's purpose, authority and responsibility. The Charter is important as it helps Council understand the role of Internal Audit, and what Councillors can expect from Internal Audit officers.
3. The current Internal Audit Charter was approved by the chair of the Audit and Risk Management Board on 14 November 2003.
4. The Charter requires review and update to reflect changes to the Internal Audit function and Council.

### Discussion

5. The purpose of Te Aho Marutau Internal Audit is to:
  - enhance and protect organisational value by providing objective assurance, advice, and insight on governance, risk management, and internal control processes
  - enable Council to deliver results and outcomes in a way that meets the public's expectations of accountability and our responsibilities as a public sector organisation.
6. We have reviewed and revised our Internal Audit Charter to be consistent with good practice, and to align our approach with the way Council operates. As part of our approach, we have engaged the Chief Executive and the Executive Leadership Team to obtain their feedback and endorsement.
7. The Charter's next review will be in three years' time; or earlier if necessary to reflect any significant changes to the Internal Audit function or Council.

### Attachments

Attachment 1. Te Aho Marutau Internal Audit Charter [↓](#)

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Author	Phyllis Lee, Principal Advisor Internal Audit
Authoriser	Kane Patena, Director, Strategy and Governance

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## **SUPPORTING INFORMATION**

### **Engagement and Consultation**

There are no requirements to consult on the matters raised in this paper.

### **Treaty of Waitangi considerations**

There are no specific Treaty of Waitangi considerations.

### **Financial implications**

There are no new financial implications raised in this paper.

### **Policy and legislative implications**

There are no new policy or legislative implications raised in this paper.

### **Risks / legal**

There are no new risks or legal implications raised in this paper.

### **Climate Change impact and considerations**

There are no climate change implications arising from this paper.

### **Communications Plan**

No communication plan is required for this paper.

### **Health and Safety Impact considered**

There are no health and safety implications arising from this paper.

## Te Aho Marutau | Internal Audit

### Our Charter – Our purpose, how we operate and what we do

DRAFT for discussion  
Version: 5 June 2018

Absolutely Positively  
Wellington City Council  
Me Heke Ki Pōneke

#### Why

The purpose of Internal Audit is to:

- enhance and protect organisational value by providing objective assurance, advice, and insight on governance, risk management, and internal control processes to the Executive Leadership Team and the Finance, Audit and Risk Management Subcommittee
- enable Council to deliver results and outcomes in a way that meets the public's expectations of accountability and our responsibilities as a public sector organisation.

#### How

##### A business partner approach

- We will work closely with leaders and managers to achieve shared organisational objectives.
- We will understand the needs of our customers and the outcomes they want to achieve.

##### Results and outcomes focused

- We will focus on the wider strategic objectives and outcomes rather than just the process used to produce a product or deliver a service.
- Knowing what success looks like informs how we can tailor our services to create value.

##### Act with integrity

- The Executive Leadership Team actively promotes and supports the need for the Internal Audit function and for Internal Auditors to perform their role objectively and with impartiality.
- When necessary, we can communicate to the Chief Executive and the chair of the Finance, Audit and Risk Management Subcommittee.
- We will uphold the principles of objectivity, integrity, confidentiality and competence.
- We will maintain an unbiased attitude and make balanced evidence-based assessments.

*Te Aho is the cord that connects us to our ancestors; the cross threads of weaving that binds all of us together in purpose. Marutau means that you are on safe ground and protected. We are the guiding cord that keeps us all safe. We shine the light to seek the way ahead together. We are Internal Audit. We are Te Aho Marutau.*

#### What

The scope of Internal Audit work include, but is not limited, to:

- develop and champion Council's Assurance Framework
- develop and carry out an audit plan to evaluate and improve the effectiveness of governance, risk management, and control processes
- provide assurance oversight and advice to programmes and projects
- provide advice on the engagement of other independent assurance providers across Council, including the scope of work and its delivery
- work with Council's Appointed Auditors to coordinate respective work programmes and to support shared outcomes
- monitor management's completion of actions from independent assurance reviews
- develop and maintain Council's protected disclosure policy on behalf of the Chief Executive and the Finance, Audit and Risk Management Subcommittee, receive protected disclosures and have oversight of any investigations under the Protected Disclosures Act 2000
- investigate allegations of frauds and other suspected financial misappropriations or avoidable losses
- provide internal audit and advisory services to Council Controlled Organisations (CCO) at the request of the Chief Executive of Wellington City Council, or the respective Chief Executives of the CCOs.

In order to achieve this, the Executive Leadership Team authorises us to:

- define Council's framework and approach for assurance
- carry out internal audit work that covers all facets of the Council's business
- determine the scope of matters to be audited and to set audit objectives
- have access to appropriate resources in order to carry out our purpose
- have access to all Council records, personnel, and property, needed to carry out our work
- report to the Finance, Audit and Risk Management Subcommittee on all aspects of our function.

Approved by:  
Executive Leadership Team, DD MMM YYYY  
Finance, Audit and Risk Management Subcommittee, DD MMM YYYY

Next review date: June 2021 (every three years)





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### 3. Public Excluded

Resolution to Exclude the Public:

THAT the Finance, Audit and Risk Management Subcommittee :

Pursuant to the provisions of the Local Government Official Information and Meetings Act 1987, exclude the public from the following part of the proceedings of this meeting namely:

General subject of the matter to be considered	Reasons for passing this resolution in relation to each matter	Ground(s) under section 48(1) for the passing of this resolution
3.1 Te Aho Marutau   Internal Audit Plan 2018-19	7(2)(c)(i) The withholding of the information is necessary to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to prejudice the supply of similar information or information from the same source and it is in the public interest that such information should continue to be supplied.	s48(1)(a) That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7.
	7(2)(c)(ii) The withholding of the information is necessary to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to damage the public interest.	
3.2 Progress on the Internal Audit Roadmap and Plan 2017-18	7(2)(c)(i) The withholding of the information is necessary to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to prejudice the supply	s48(1)(a) That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7.

of similar information or information from the same source and it is in the public interest that such information should continue to be supplied.

7(2)(c)(ii)

The withholding of the information is necessary to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to damage the public interest.

3.3 Status of Internal Audit Findings

7(2)(c)(i)

The withholding of the information is necessary to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to prejudice the supply of similar information or information from the same source and it is in the public interest that such information should continue to be supplied.

s48(1)(a)

That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7.

7(2)(c)(ii)

The withholding of the information is necessary to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to damage the public interest.

3.4 Risk Management Update

7(2)(c)(ii)

The withholding of the information is necessary to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the

s48(1)(a)

That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7.

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	making available of the information would be likely to damage the public interest.	
3.5 Health and Safety Report	7(2)(b)(ii) The withholding of the information is necessary to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information.	s48(1)(a) That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7.