



A G E N D A

Finance, Audit and Risk Committee

**Council Chambers
36 Weld Street
Hokitika**

**Thursday 22 June 2017
Commencing at 9.00 am**

Deputy Mayor L.J. Martin – Chairperson
His Worship the Mayor R.B. Smith
Deputy Mayor Cr H.M. Lash
Crs D.L. Carruthers, R.W.(G) Eatwell, D.M.J. Havill ONZM,
J.A. Neale, G.L. Olson, D.C. Routhan.



FINANCE, AUDIT AND RISK COMMITTEE

AGENDA FOR A MEETING OF THE FINANCE, AUDIT AND RISK COMMITTEE OF WESTLAND DISTRICT COUNCIL, TO BE HELD IN THE COUNCIL CHAMBERS, 36 WELD STREET, HOKITIKA ON THURSDAY 22 JUNE 2017 COMMENCING AT 9.00 AM

16 June 2017

COUNCIL VISION

Westland District Council will facilitate the development of communities within its district through delivery of sound infrastructure, policy and regulation.

This will be achieved by:

- Involving the community and stakeholders.
- Delivering core services that meet community expectations and demonstrate value and quality.
- Proudly promoting, protecting and leveraging our historic, environmental, cultural and natural resource base to enhance lifestyle and opportunity for future generations.

Purpose:

The Council is required to give effect to the purpose of local government as prescribed by section 10 of the Local Government Act 2002. That purpose is:

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

1. MEMBERS PRESENT, APOLOGIES AND INTEREST REGISTER:

1.1 Apologies & Leave of Absence

1.2 Interest Register

2. CONFIRMATION OF MINUTES:

2.1 Finance, Audit and Risk Committee Meeting – 29 May 2017 Pages 5-8

3. ACTION LIST

The Action List is attached Page 9

4. ITEMS FOR DISCUSSION:

4.1 Financial Performance Report May 2017 Pages 10-22

4.2 Audit Visit – Bede Kearney Pages 23-59

Bede Kearney, Audit Director from Audit New Zealand will be in attendance at the meeting to speak to the 3 Audit letters attached to the agenda.

4.3 Rates Write Offs and Remissions 2016-2017 Pages 60-64

4.4 Departure from Investment Policy 2017 Pages 65-67

5. MATTERS TO BE CONSIDERED IN THE 'PUBLIC EXCLUDED SECTION'

Resolutions to exclude the public: Section 48, Local Government Official Information and Meetings Act 1987.

Council is required to move that the public be excluded from the following parts of the proceedings of this meeting, namely:

5.1 Confidential Minutes

5.2 Risk Register

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

Item No.	Minutes/ Report of	General subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Ground(s) under Section 48(1) for the passing of this resolution
5.1	Minutes	Confidential Minutes – Finance, Audit and Risk Committee	Good reasons to withhold exist under Section 7	Section 48(1(a) & (d)
5.2	Risk Register	Confidential Update	Good reasons to withhold exist under Section 7	Section 48(1(a) & (d)

Finance, Audit and Risk Committee Minutes

MINUTES OF A MEETING OF THE FINANCE, AUDIT AND RISK COMMITTEE OF WESTLAND DISTRICT COUNCIL, HELD IN THE COUNCIL CHAMBERS, 36 WELD STREET, HOKITIKA ON MONDAY 29 MAY 2017 COMMENCING AT 9.30 AM

1 MEMBERS PRESENT, APOLOGIES AND INTEREST REGISTER:

1.1 Members Present

Deputy Mayor Cr L.J. Martin (Chair), His Worship the Mayor R.B. Smith, Deputy Mayor Cr H.M. Lash
Crs D.L. Carruthers, R.W. Eatwell, D.M.J. Havill (ONZM), J.A. Neale, G.L. Olson,

Apologies:

Moved Cr H.M Lash, seconded Cr R.W Eatwell that apology received from D.C. Routhan

Staff in Attendance:

Robin Reeves, Chief Executive; L.A. Crichton, Corporate Manager; J.D Ebenhoh Planning Community and Environment Manager; V.M. Watson, Business Support Officer/Committee Secretary.

1.2 Interest Register

Deputy Mayor Martin circulated the Interest Register and no amendments were made.

2. CONFIRMATION OF MINUTES:

2.1 Finance, Audit and Risk Committee Meeting –27 April 2017

Moved Deputy Mayor Cr H.M Lash, seconded Cr J.A Neale and **Resolved** that the Minutes of the Finance, Audit and Risk Committee Meeting held on the 27 April 2017 be confirmed as a true and correct record of the meeting.

New Staff appointments within the Finance team

Finance team Introductions:

Lesley Crichton – Corporate Services Manager

Dayle McMillian – Finance Manager

Kathrine Hartwig – Accounts Payable Officer

Bernadine Lombaard Accounts Receivable Officer

Lavinia Hamilton – Accountant

Petro Klopper - Rates Officer

3. ACTION LIST

Moved His Worship the Mayor R.B. Smith, seconded Deputy Mayor H.M Lash and **Resolved** that the action list be accepted

4. ITEMS FOR DISCUSSION:

4.1 Museum Upgrade: Costs, Funding Options and Possible Timelines

Group Manager: Planning Community and Environment J.D Ebenhoh spoke to this topic, confirming a report is intended to be presented to Council in June to clarify specific details.

This is a generalised verbal report from sub-committee meeting held Friday 26 May. A discussion around the level of ‘upgrade standard rating’ will determine the different level of funding for external funding. MDI Funding and cost estimates for the upgrade levels to be clarified in report to Council.

Councillors responded with statements of support for the upgrade.

Moved Cr Olson , seconded Cr Neale and **Resolved** that the verbal update report of the Museum upgrade, be accepted.

5. ITEMS FOR DECISION:

5.1 Financial Performance: April 2017

L.A. Crichton, Corporate Services Manager spoke to this report

Summary of financial position clarified with report detail.

The financial forecast financials are showing a surplus currently although we are only 10 months through the financial year.

However with the calculated unbudgeted spend forecast we are looking at a significant deficit.

Concern is raised with a high number of projects incomplete and until completion is achieved, it creates a requirement to carry the costing at present.

Moved Cr Havill, seconded Cr Eatwell and **Resolved** that the Financial Performance: April 2017 report is received.

5.2 Kumara Township Development Funding

Community Development Advisor D. Blight spoke to this report.

Discussion around a 'community group' and a 'splinter group' and the appropriate way forward following appropriate process.

Confirmation that the time frame review of its Community Funding Framework is scheduled for 2017/18 for the Long Term Plan.

Moved Cr J.A Neale, seconded Deputy Mayor Lash and **Resolved** that Council continue to allocate the full amount of Township Development Funding for the wider Kumara area (\$14,000 per year) to the Kumara Residents Trust for distribution, and encourages the Kumara Junction Community Association to propose specific projects through the process run by the Kumara Residents Trust, until the Council reviews its Township Development Funding framework in 2017/18 as part of developing its 2018-2028 Long Term Plan.

6. MATTERS TO BE CONSIDERED IN THE 'PUBLIC EXCLUDED SECTION'

Moved His Worship the Mayor, seconded Cr Neale and **Resolved** that Council exclude the public in accordance with Section 48, Local Government Official Information and Meetings Act 1987 at 10.50 am.

Council is required to move that the public be excluded from the following parts of the proceedings of this meeting, namely:

6.1 Confidential Minutes – Finance, Audit and Risk Committee – 27 April 2017

6.2 Risk Register

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

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6.2	Risk Register	Confidential Update	Good reasons to withhold exist under Section 7	Section 48(1)(a) & (d)

This resolution is made in reliance on Section 48(1)(a) and 48(2)(a)(i) and (ii) of the Local Government Official Information and Meetings Act 1987 and the particular interest or interests protected by Section 6 or 7 of that Act which would be prejudiced by the holding of the whole or relevant part of the proceedings of the meeting in public are as follows:

No.	Item	Section
6.1, 6.2	Protection of privacy of natural persons/organisations.	Section 7(2)(a)

Cr Havill, seconded Deputy Mayor Lash and **Resolved** that the business conducted in the “Public Excluded Section” be confirmed and accordingly the meeting went back to the open part of the meeting at 11.15am

MEETING CLOSED AT 11.15AM.

Confirmed by:

Deputy Mayor Latham Martin
Chair – Finance, Audit and Risk Committee

Date

Action List

Date of Meeting	Meeting	Item	Action	Who Responsible	Timeframe	Status
29.05.17	Finance, Audit and Risk Committee	Audit Management Report for the year ended 30 June 2016.	Advise Bede Kearney, Audit Director of future meetings of the Committee.	GMCS		Information confirmed it has been sent to Bede Kearney
26.01.17	Finance, Audit and Risk Committee	CCOs Financial Reporting	Write to the CCOs requesting the provision of earlier financial reporting and also agree on an appropriate timeframe going forward; and release of the Audit Management Report for the year ended 30 June 2016.	GMCS		In progress
26.01.17	Finance, Audit and Risk Committee	Committee Workplan	View the previous Executive Committee Workplan and circulate to the Finance, Audit and Risk Committee and also look at using the Audit Management Report to inform the workplan going forward	Deputy Mayor Martin and GMCS		The workplan Information has not been sent to Bede Kearney
29.05.17	Finance, Audit and Risk Committee		Report to Council Meeting to follow	GMPCE	22 June Council Meeting	

Report



DATE: 22 June 2017

TO: Mayor and Councillors

FROM: Group Manager – Corporate Services

FINANCIAL PERFORMANCE: MAY 2017

1 SUMMARY

- 1.1 The purpose of this report is to provide an indication of Council's financial performance for one month to 31 May 2017.
- 1.2 This issue arises from a requirement for sound financial governance and stewardship with regards to the financial performance and sustainability of a local authority.
- 1.3 Council seeks to meet its obligations under the Local Government Act 2002 and the achievement of the District Vision adopted by Council as part of the Long Term Plan 2015-25. These are stated on Page 2 of this agenda.
- 1.4 This report concludes by recommending that Council receive the financial performance report to 31 May 2017, attached as **Appendix 1**.

2 BACKGROUND

- 2.1 Council receives monthly financial reporting so that it has current knowledge of its financial performance and position against targets and objectives adopted in the Long Term Plan 2015/25.

3 CURRENT SITUATION

- 3.1 Council now receives a monthly financial summary report in a consistent format.

3.2 The Financial Performance Report to 31 May 2017, is attached as **Appendix 1** and contains the following elements:

- 3.2.1 Segmental graphs for net cost of services, operating revenue and expenditure with the addition of the actual and forecast amounts.
- 3.2.2 Update on Rates Debtors.
- 3.2.3 Whole of Council Cost of Service Statement, including Full Year Forecast.
- 3.2.4 Council approved unbudgeted expenditure (New)
- 3.2.5 Variance analysis
- 3.2.6 Debt report including budget, forecast debt and actual debt.
- 3.2.7 Projects 2016-17
- 3.2.8 Carryover schedule
- 3.2.9 Balance Sheet

4 OPTIONS

4.1 Council can decide to receive or not receive the report.

5 SIGNIFICANCE AND CONSULTATION

5.1 This report is for information only and, while feedback is invited from Council in order for staff to continuously improve the quality of information provided, no assessment of significance or consultation and no options analysis is required.

6 RECOMMENDATION

A) **THAT** Council receives the Financial Performance Report to 31 May 2017

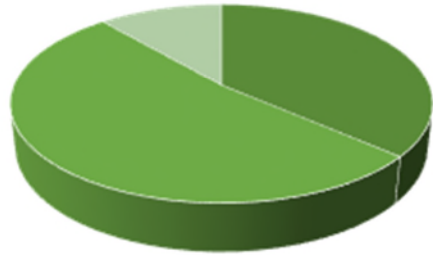
Lesley Crichton
Group Manager: Corporate Services

Appendix 1: Financial Performance May 2017



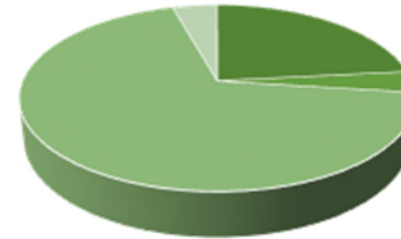
Financial Performance May 2017

Operating revenue Actual year to May



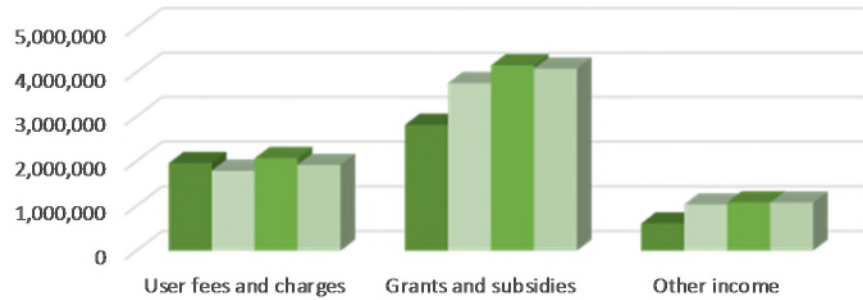
■ User fees and charges ■ Grants and subsidies ■ Other income

Operating expenditure Actual year to May



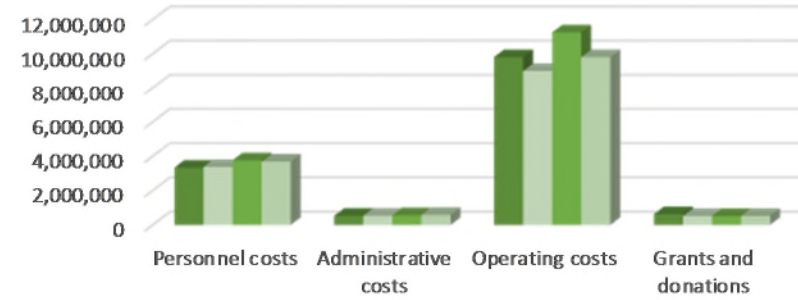
■ Personnel costs ■ Administrative costs ■ Operating costs ■ Grants and donations

Operating revenue



■ YTD Actual ■ YTD Budget ■ FY Forecast ■ FY Budget

Operating expenditure



■ YTD Actual ■ YTD Budget ■ FY Forecast ■ FY Budget

Column	User fees & Charges	Grants & Subsidies	Other Income
Actual YTD	1,958,749	2,812,952	609,877
Budget YTD	1,786,715	3,755,103	1,033,556
Variance	172,033	(942,152)	(423,679)
Forecast FY	2,067,792	4,155,783	1,080,676
Budget FY	1,918,351	4,082,876	1,076,546

Column	Personnel	Administration	Operating	Grants & subsidies
Actual YTD	3,337,316	537,815	9,810,637	626,907
Budget YTD	3,376,943	539,974	8,993,439	521,791
Variance	(39,626)	(2,159)	817,198	105,115
Forecast FY	3,763,212	564,108	11,254,876	525,365
Budget FY	3,692,808	583,305	9,801,863	525,000

Rates Debtors

Rates Debtors at 30 April 2017		3,527,467
Rates instalment	0	
Less payments received	-2,368,662	
Paid in advance	125,459	
Write offs	-268	
Penalties	-29,308	
Court costs awarded	2,453	
		-2,270,326
Total Rates Debtors at 31 May 2017		1,257,141
Arrears included above at 31 May 2017	1,257,141	
Arrears at 31 May 2016	1,744,861	
Increase/(decrease) in arrears		-487,720

Note: In the month with a rates instalment all current is arrears

Since April 2016 awarded court costs are now being accounted for as part of outstanding rates debt.

Rates Debtors:

- Final penalty letters sent out 343
- New direct debit arrangements 14

Rates Debt - Aged at 31 May 2017

Financial Year	May-17	May-16	Apr-17
Pre 2013	104,228	193,659	109,052
2013-14	56,651	159,736	60,817
2014-15	78,865	278,989	82,481
2015-16	157,972	1,112,477	181,846
Current	859,425	-	3,093,271
	1,257,141	1,744,861	3,527,467

WESTLAND DISTRICT COUNCIL	Year to May			Full year 2016-2017	
	Actual	Budget	Variance	FY Forecast	Budget
Operating revenue					
Rates (includes targeted rates and metered water)	14,151,103	13,895,817	255,286	14,629,081	14,721,081
User fees and charges	1,958,749	1,786,715	172,033	2,067,792	1,918,351
Grants and Subsidies	2,812,952	3,755,103	(942,152)	4,155,783	4,082,876
Other income	609,877	1,033,556	(423,679)	1,080,676	1,076,546
Overhead recoveries	5,622,171	6,172,412	(550,241)	6,271,503	6,751,733
Total revenue (A)	25,154,851	26,643,603	(1,488,752)	28,204,835	28,550,587
Operating expenditure					
Personnel costs	3,337,316	3,376,943	(39,626)	3,763,212	3,692,808
Administrative costs	537,815	539,974	(2,159)	564,108	583,305
Operating costs	9,810,637	8,993,439	817,198	11,254,876	9,801,863
Grants and donations	626,907	521,791	105,115	525,365	525,000
Overheads	5,580,256	6,229,718	(649,462)	6,107,960	6,796,057
Total operating expenditure (B)	19,892,932	19,661,865	231,067	22,215,521	21,399,033
Net operating cost of services - surplus/(deficit) (A - B)	5,261,919	6,981,738	(1,719,819)	5,989,314	7,151,554
Other expenditure					
Interest and finance costs	618,135	612,828	5,307	677,062	671,272
Depreciation	5,209,993	4,837,917	372,076	5,690,000	5,276,728
(Gain)/loss on investments	6,342	0	6,342	10,176	0
(Gain)Loss on swaps	(326,791)	(126,306)	(200,485)	(280,000)	(137,788)
(Gain)Loss on disposals	1,917	0	1,917	0	0
Total other expenditure (C)	5,509,596	5,324,439	185,157	6,097,237	5,810,211
Total expenditure (D = B + C)	25,402,528	24,986,304	416,224	28,312,759	27,209,244
Net cost of services - surplus/(deficit) (A - D)	(247,677)	1,657,299	(1,904,976)	(107,924)	1,341,343

The expenditure in the table below is reflected in the forecast net cost of services – surplus/(deficit).

Council Approved Unbudgeted Expenditure

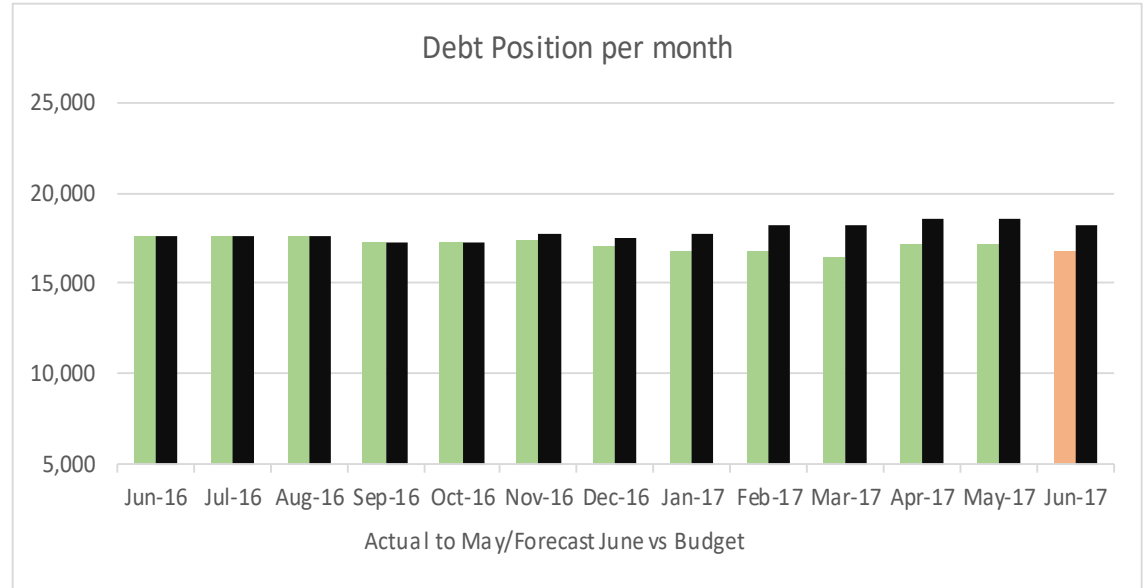
Dated Approved	Description	Amount Approved \$	Amount Spent \$	Status
Nov-16	5.7 Carnegie Building – Detailed Structural Assessment	10,000		Under review
Nov-16	5.15 Elected Members Remuneration	21,680	14,705	Remuneration authority approval has now been received
Dec-16	4.4 Whataroa Cemetery Trustees – Maintenance Reimbursement Request	6,053	6,053	Complete
Dec-16	4.6 Sunset Point Erosion Control	247,459	220,487	Primary works complete
Jan-17	4.3 Marks Road Reserve Reimbursement	4,704	4,704	Complete
Jan-17	4.5 Blue Spur Water Treatment Plant PH Correction	50,000	50,128	Installation of temporary PH control then installation of permanent PH correction measures on river feed.
Jan-17	6.3 Tender Approval: Hokitika Stormwater Upgrade Works – Contract 16/17/09	500,000		Contract to be written
Nov-16	6.5 Franz Josef - Extra Toilet cleans	7,000	5,340	Extra cleans commenced in March
Mar-17	5.3 Management of the Carnegie Buidling	20,000	10,000	Management fee is being paid monthly.
Mar-17	Remedial work Cass Square playing surface	9,959	9,959	Complete
Apr-17	5.5 Tancred street stormwater pump station upgrade	18,500		Upgrade will occur when construction is completed and the pump relocated
Total		895,355	321,376	

Variance Analysis

Operating Revenue	
Rates revenue	Metered water charges higher than budgeted due to timing differences.
User fees and charges	<p>\$13k unbudgeted WCWT Partner contributions for 2016-17 which is offset in Operating costs.</p> <p>Liquor licence fees \$28k above YTD budget due to the introduction of annual and application fees.</p> <p>Refuse site fees are \$145k higher than expected. This is primarily due to tourism and will reduce closer to budget by year end.</p> <p>The below is expected to be timing differences. \$70k higher than anticipated cost recoveries for resource consents.</p> <p>The positive variances are offset by environmental health fees, \$30k changes to the food fees by splitting registration, audit and monitoring fees. Registration fee will be charged in early 2017.</p> <p>\$46k Museum revenue due to closure and some timing differences.</p>
Grants and Subsidies	NZTA subsidy lower than expected due to delays with the Sealed Road Resurfacing Programme. The extremely wet weather in Dec 16 and Jan 17 has caused the significant backlog. This work attracts \$662k in NZTA subsidy and the work has now been completed.
Other Income	<p>\$10k Donation towards relocation of Pioneer statue from Lions Foundation. \$14k unbudgeted legal fees awarded on rates arrears. \$22k recoveries of EMO costs from WCRC.</p> <p>Offset by timing difference on \$500k budgeted dividend payment from WHL. \$19k lower advertising revenue as operators use other mediums and \$19k insurance premium recoveries which are now going through the Balance Sheet.</p>
Operating expenditure	
Operating costs	<p>Unbudgeted spend included in Operating Costs:</p> <ul style="list-style-type: none"> - Council approved unbudgeted expenditure \$321k -detail can be found within the table above. - Damaged culvert pipes due to overweight vehicles - \$267,000. - Franz Josef waste water proceedings and legal fees, \$106,000 - Unforeseen breakdown of pump in Fitzherbert street - \$25,000. - Repairs to Hokitika WWTP sewer outfall - \$37,000. - EQ Assessment Hokitika Swimming Pool - \$11,000. <p>Offset by timing differences for budgeted work not yet completed.</p>
Grants and Donations	\$150k Kumara endowment reserve funding for memorial gardens. Offset by Council grants for toilet cleaning and township maintenance funds not yet requested.
Other expenditure	
Depreciation	Assets were revalued at the end of the financial year and asset lives and depreciation rates were updated to reflect this new information.
(Gain)/Loss on Swaps	Swap values will change due to market conditions that is difficult to budget.

Forecast Debt Position per LTP 2016-17

Forecast as at	Jul-16	May-17
Opening Balance	17,600	17,600
Loan funded capex forecast	3,196	963
Forecast repayments 2016-17	-1,611	-1,811
Forecast balance June 2017	19,185	16,752



	Debt Position per month												
	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17
Budget	17,600	17,600	17,600	17,250	17,300	17,699	17,526	17,753	18,181	18,175	18,567	18,596	18,213
Forecast at 1 July 2016	17,600	17,600	17,667	17,394	17,536	17,926	17,921	18,316	18,867	19,019	19,539	19,568	19,185
Actual + Forecast	17,600	17,600	17,600	17,200	17,200	17,382	16,982	16,782	16,782	16,382	17,182	17,182	16,780
Waste Management loan	2,554	2,554	2,554	2,513	2,513	2,524	2,483	2,483	2,483	2,442	2,442	2,442	2,401
Water Supply loan	2,369	2,369	2,369	2,328	2,328	2,328	2,288	2,288	2,288	2,246	2,246	2,246	2,204
Waste water loan	0	0	0	0	0	0	0	0	0	0	0	0	0
Structured Infrastructure loan for Council assets	8,295	8,295	8,295	8,233	8,233	8,233	8,170	7,970	7,970	7,908	7,908	7,908	7,845
Stormwater loan	0	0	0	0	0	52	52	52	52	52	752	752	752
Transportation	0	0	0	0	0	0	0	0	0	0	100	100	100
Other loan	56	56	56	55	54	174	173	173	173	173	173	173	172
Hokitika Water supply upgrade	4,326	4,326	4,326	4,071	4,071	4,071	3,816	3,816	3,816	3,561	3,561	3,561	3,306

As at 31/05/2017

		Legend - Key		
Forecast on Budget				Project Delayed - Will not be completed by 30th June 2017
Forecast over Budget				Project on-Track - Will be completed by 30th June 2017
				Project Complete - 100% Progress

Project / Activity	YTD exp	2016-17	Forecast	Budget Track	Progress / Track	Progress comments
	\$0	\$0	\$0			
Corporate Services						
Corporate Services - Replacement Councilors tablets	14,925	10,000	14,925			Complete, overspend due to upgraded specification.
Corporate Services - Projector Screen	978	0	978			Existing screen stopped working and needed replacement.
Council HQ - Roof over skylights	1,575	20,000	20,000			Consent to be lodged next week.
Information Management - Shelving	-	10,000	10,000			Review continuing - This work was completed.
Information Management - DMS	-	200,000	200,000			Scoping and discovery phase to commence July/August 2017.
Council website	21,750	35,000	35,000			Work commenced January 2017 - final accounts July/August 2017.
	39,227	275,000	280,902			

Library						
Kotui Library system	66,691	70,000	66,691			Complete.
Security Cameras	4,383	0	4,383			3 security cameras, approved by previous CE.
Library - Audio/Visual Resource	1,166	4,000	4,000			eBooks and Junior audios to be purchased before 30 June 2017.
Library - Free Adult Books	15,457	13,000	15,457			Spending on track.
Library - Adult Non Fiction	15,560	17,500	17,500			Spending on track.
Library - Junior Publications	10,249	11,500	11,500			Spending on track.
Library - Large Print Books	5,575	6,000	6,000			Spending on track.
	119,081	122,000	125,531			

























































































WATER SUPPLY						
Kumara - Water treatment plant	1,405	420,000	420,000			Tenders advertised - Approval report on 26 Jan Council meeting.
Kumara - Water treatment plant - seismic valves	-	30,000	30,000			Tenders advertised - Approval report on 26 Jan Council meeting.
Hokitika - Pumps Replacement	-	50,000	50,000			Identification of pumps for replacement is currently underway.
Hokitika - River Intake	15,588	0	15,588			Remaining costs for completed survey works.
Ross - Mains Upgrade	490	0	490			YTD exp from last financial year. No work carried out on this project this financial year. Work unlikely to be completed this financial year.
Whataroa - Water treatment plant	3,105	220,000	220,000			Tenders advertised - Approval report on 26 Jan Council meeting.
Whataroa - Seismic valves	-	20,000	20,000			Reassessing the need of the project.
	20,588	740,000	756,078			

WASTEWATER						
Hokitika - Mains upgrade	11,146	150,000	150,000			Unlikely to complete mains upgrades this financial year.
Franz Josef - New WWTP	110,057	200,000	200,000			Final invoices yet to be included.
Fox Glacier - WWTP upgrade	-	100,000	100,000			Recommend carry over to next financial year in order to combine budgets.
Haast - Mains upgrade	-	20,000	20,000			Unlikely to complete mains upgrades this financial year.
Haast - De-sludge oxidation ponds	-	150,000	150,000			Not started as yet. Partial de-sludging.
	121,203	620,000	620,000			

STORMWATER						
Sewell Street Pump	83,886	-	83,886			Previous year emergency work.
Hokitika - Tancred, Bealey and Rolleston street upgrades	391,885	769,000	1,149,000			Civil component of upgrade currently underway.
	475,771	769,000	1,232,886			

CEMETERIES						
Cemetery - Hokitika upgrade & expansion	-	10,000	10,000			Works in Feb/March 2017.
Cemetery - Hokitika improvements	4,254	25,000	25,000			Works in Feb/March 2017.
	4,254	35,000	35,000			

Community Township Development						
RSA Footpath repair	419	-	419			
New footpaths - Franz	-	25,000	25,000			To be discussed with Community.
Footpath upgrades - Hokitika	-	27,000	27,000			Part of NZTA programme.
Footpath upgrades - Kumara	-	5,000	5,000			Using carry forward first.
New Litter Bins	4,774	-	4,774			
Footpath upgrades - Franz	-	15,000	15,000			To be discussed with Community.
	5,194	72,000	77,194			

Elderly Housing					
Elderly Housing - Roof repairs	39,760	40,000	39,760	 	Completed in January 2017.
Information Services					
IT equipment Renewals	8,916	30,000	30,000	 	Committed.
Office Equipment					
Inspection Administration	1,662	-	1,662	 	Upgrades to workstations and screens.
Resource Management	3,433	-	3,433	 	Upgrades to workstations and screens.
Emergency Management	475	-	475	 	Upgrades to workstations and screens.
In House Professional Services	5,975	-	5,975	 	Upgrades to workstations and screens.
i-SITE/CSC	5,006	-	5,006	 	Security upgrade.
Events Coordination	566	-	566	 	Upgrades to workstations and screens.
Corporate Services	3,189	-	3,189	 	Upgrades to workstations and screens.
Chief Executive	2,948	-	2,948	 	Upgrades to workstations and screens.
Operations Administration	1,193	-	1,193	 	Upgrades to workstations and screens.
	24,447	0	24,447		
Motor Vehicles					
Ford Kuga JFF992	3,184	-	3,184	 	Civil Defence equipment, lights and siren.
Wildfoods Festival					
Replacement of promotional assets	-	20,000	20,000	 	To be carried over.
Land & Buildings					
Carnegie Building	17,446	-	17,446	 	Unbudgeted works - lighting. Completed.
Ross Memorial Hall	93,136	-	93,136	 	Last year expenditure - will be complete.
Land & Buildings - car parking	-	15,000	15,000	 	Spent on St Marys and Hokitika Primary road crossings.
	110,582	15,000	125,582		
Parks & Reserves					
Reserves - Cass Square - Repairs to Statues	-	5,000	5,000	 	Using carry forward first.
Reserves - Cass Square - Grandstand	-	30,000	30,000	 	Scoping in progress. Off-season works after Wildfoods event.
Reserves - Cass Square - Playground equipment upgrade	-	25,000	25,000	 	Scoping in progress. Off-season works after Wildfoods event.
Reserves - Marks Road Reserve	-	10,000	10,000	 	Funds are for recreation purpose. Not scoped as yet.
Reserves - Hokitika Waterfront Development	-	100,000	100,000	 	Plans and Planning underway with community groups. Carry forward will be required.
Reserves - Hokitika Heritage trail signs	-	3,500	3,500	 	Staff currently liaising with Heritage Hokitika members.
	0	173,500	173,500		
Transportation					
Unsealed Pavement Maintenance	391	-	391	 	Annual Road Maintenance program. On-Track.
Routine Drainage Mtce	16,165	-	16,165	 	Annual Road Maintenance program. On-Track.
Environmental Maintenance	10,860	-	10,860	 	Annual Road Maintenance program. On-Track.
Network and Asset Management	1,460	-	1,460	 	Laptop for traffic counting downloads.
Emergency Works	50,416	-	50,416	 	Arthurs town road emergency works.
4th Street Kumara	23,280	-	23,280	 	Costs are from the previous year - Complete works
Unsealed Road Metalling	184,092	278,000	278,000	 	Annual Road Maintenance program. On-Track.
Sealed Road Resurfacing	847,944	875,500	875,500	 	Annual Road Maintenance program. On-Track.
Maintenance - Drainage Renewals	374,536	154,500	154,500	 	Annual Road Maintenance program. On-Track.
Structures Component Replace	29,926	206,000	206,000	 	Annual Road Maintenance program. On-Track.
Traffic Services Renewals	9,624	123,500	123,500	 	Annual Road Maintenance program. On-Track.
Routine Drainage Maintenance	17,320	-	17,320	 	Annual Road Maintenance program. On-Track.
Sealed Road Resurfacing	77,867	154,500	154,500	 	Annual Road Maintenance program. On-Track.
Drainage Renewal	5,950	26,000	26,000	 	Annual Road Maintenance program. On-Track.
Structures Component Replace	101,829	51,500	51,500	 	Annual Road Maintenance program. On-Track.
Traffic services renewals	3,800	10,500	10,500	 	Annual Road Maintenance program. On-Track.
Minor Improvements	-	184,500	184,500	 	Annual Road Maintenance program. On-Track.
Minor Improvements	24,721	28,000	28,000	 	Annual Road Maintenance program. On-Track.
Sealed Road Pavement Rehabilitation	70,363	300,000	300,000	 	Annual Road Maintenance program. On-Track.
Associated Improvements	-	1,000,000	-	 	Will not be utilised - Loan funded will not be drawn.
Whitcombe Valley road widening, seal and extension	112,922	500,000	112,922	 	Annual Road Maintenance program. On-Track.
Ross Hall car park seal	-	35,000	35,000	 	Ross Car Park - Community has undertaken some works. Works to be completed by Feb 2017.
	1,963,465	3,927,500	2,660,314		
Total	2,935,672	6,839,000	6,204,379		

Carry Over Schedule to 2016-17

Activity	Detail	Funded by	Approved \$	Actual \$	Forecast \$	Balance \$	Approved variance in 2016	Status
Museum	Retail Development	Depreciation	17,000	15,191	15,191	1,809	Capital	Approved amount in LTP was \$30,000. No further carryover required.
Township Development	Upgrade footpaths and driveways over next three years	Depreciation	5,000	-	5,000	-	Capital	Community projects?
Township Development	Repairs and Maintenance to Hokitika Statues	Depreciation	5,000	-	5,000	-	Capital	Discussion with contractor and Heritage Hokitika has taken place. Low priority at present
Water Supply	Replace Water meters (on-going) - Hokitika	Depreciation	190,000	-	190,000	-	Capital	Initial scoping done. Now in detailed scoping. The budget is for Franz and Hokitika. Currently Fox is in progress on meters replacement.
Water Supply	Replacement of Water Meters - Fox G	Depreciation	5,712	20,954	20,954	- 15,242	Capital	Work is in progress.
		Total depreciation funded carryovers	222,712	36,146	236,146	- 13,434		
Museum	Museum Donations - for Exhibitions	Donations	10,871	-	-	10,871	Operating adverse	Plus \$5,000 donated July 2016. Full carryover of \$15,871 required as projects using donations have not taken place this year due to Museum closure.
		Total donations carryovers	10,871	-	-	10,871		
Community Development	SPARC Travel Grant	External Grant	1,117	1,117	1,117	-	Operating adverse	Over budget by \$2,000.
Community Development	Creative Communities Grant	External Grant	7,573	4,932	7,573	-		
Community Development	Taxi Chits	External Grant	600	600	600	-		Community project.
		Total external grant funded carryovers	9,290	6,649	9,290	-		
WCWT	Completion of Trail	Subsidy	479,000	120,588	479,000	-		Project on track.
			479,000	120,588	479,000			
Solid Waste	Landfills - Butlers Site Shed - Hazardous Washdown Facility	Loan Funding	15,000	-	15,000	-	Capital	Budgets seem to be not fitting the estimates for the works. Rescoping the works now.
Solid Waste	Intermediate Capping for Butlers	Loan Funding	50,000	-	50,000	-	Capital	More than likely that capping will be towards the end of the financial year.
Solid Waste	Landfill- Haast - Digout new Cell	Loan Funding	10,000	6,260	10,000	-	Capital	Works in progress now.
Solid Waste	Haast intermediate cap current cell	Loan Funding	10,000	-	10,000	-	Capital	Works in progress now.
Solid Waste	Franz Josef Landfill	Loan Funding	25,000	-	25,000	-	Capital	On-hold pending future direction on Franz River issues.
Parks & Reserves	Cass Square - Turf Upgrades	Loan Funding	120,000	121,029	121,029	- 1,029	Capital	Works in Progress - cost overrun due to flooding of reseeded area.
		Total loan funded carryovers	230,000	127,289	231,029	-		

Parks & Reserves	Repairs and Maintenance to Hokitika Statues	Rates YE 2014	2,709	-	2,709	-	Capital	\$1,000 committed to Oscar Bottom Memorial.
Parks & Reserves	Repairs and Maintenance to Hokitika Statues	Rates YE 2015	5,000	-	5,000	-	Capital	Discussion with contractor and Heritage Hokitika has taken place. Low priority at present.
Museum	Research Development Centre	Rates YE 2016	22,000	8,058	8,058	13,942	Capital	Started, approximately \$8,000 spent.
		Total rates funded carryovers	29,709	8,058	15,767	13,942		
Township Development	Franz Josef Urban Revitalisation plan	Recreation Contributions	100,000	-	100,000	-	Capital	Awaiting further study / work with community, regional council and central government on a "master plan" for the township before this streetscape / revitalisation work takes place. Full carryover required.
Waterfront carry forward	Hokitika Waterfront Development	Recreation Contributions	25,240	13,209	25,240	-	Capital	No large procurement process will now take place- this funding is now being set towards redevelopment work around sunset point. Expecting working drawings on the project by December end. Possibly looking for procurement to commence in New Year - 2017.
Franz Josef Cycle Trail	Franz Josef Cycle Trail	Recreation Contributions	48,000	15,885	48,000	-	Operating adverse	Franz Josef Community Council responsible for this project now.
		Total recreation contribution carryovers	173,240	29,094	173,240	-		
Township Development	Hari Hari Township Development fund	Reserves	8,971	5,000	8,971	-	Operating adverse	To be held until Hari Hari decides what they want to spend it on.
		Total reserves funded carryovers	8,971	5,000	8,971	-		
West Coast Wilderness Trail	Cycle Trail - Partner Programme Revenue	Stakeholder Contribution 2015-16	13,275	13,275	13,275	-	Operating adverse	This money has been transferred to the WCWT Trust.
		Total stakeholder contribution carryovers	13,275	13,275	13,275	-		
			1,177,068	346,098	1,166,718	11,379		

Balance Sheet as at 31 May 2017	Council		
	Actual	Budget	Actual
	May-17 \$'000	Jun-17 \$'000	Jun-16 \$'000
Assets			
Current assets			
Cash and cash equivalents	4,141	4,113	1,875
Debtors and other receivables	1,765	2,754	3,764
Other financial assets	34	0	1,000
Inventory	0	0	0
Work in progress	0	0	0
<i>Total current assets</i>	5,940	6,867	6,639
Non-current assets			
Property, plant and equipment	428,925	419,290	433,498
Intangible assets	0	71	74
Derivative financial instruments	0	0	0
Council Controlled Organisations	8,695	8,695	8,695
Other Financial Assets	813	1,133	40
Investment property	0	0	0
Term inventory	0	0	0
Assets under construction	2,698	0	651
<i>Total non-current assets</i>	441,131	429,189	442,958
Total assets	447,071	436,056	449,596
Liabilities			
Current liabilities			
Creditors and other payables	588	2,331	2,112
Derivative financial instruments	2	0	0
Borrowings	0	3,750	0
Employee entitlements	240	296	240
Provisions	0	0	0
Tax payable	3	3	3
Other current liabilities	296	193	280
<i>Total current liabilities</i>	1,129	6,573	2,634
Non-current liabilities			
Derivative financial instruments	443	160	771
Borrowings	17,183	18,873	17,600
Employee entitlements	28	29	28
Provisions	1,251	1,644	1,251
Deferred Tax	30	30	30
<i>Total non-current liabilities</i>	18,934	20,736	19,680
Total liabilities	20,063	27,309	22,314
Net assets	427,008	408,747	427,282
Equity			
Retained earnings	151,748	155,011	153,182
Restricted reserves	5,652	6,152	4,491
Revaluation reserves	269,545	247,584	269,545
Other comprehensive revenue and expense reserve	64	0	64
Net assets	427,008	408,747	427,282

30 May 2017

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PO Box 2, Christchurch 8140

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Fax: 03 961 3059

Bruce Smith
Mayor
Westland District Council
Private Bag 704
Hokitika 7842

Dear Bruce

Audit for the year ending 30 June 2017

I am writing to outline our arrangements for the audit of Westland District Council for the year ending 30 June 2017. This letter has two main sections – an agreement to be signed, and details of the audit.

Agreement to be signed

On the next page is an agreement for you to sign. Your signature confirms that the details of the audit match your understanding of the arrangements for this year's audit.

Please sign and return one copy of the agreement, along with a copy of the details of the audit.

Details of the audit

Here we set out the proposed arrangements for this year's audit. These include:

- business risks/issues and our audit response;
- areas of interest for all local authorities; and
- logistics (such as our audit team, timing, and fees).

Additional information attached

We have attached two appendices for your information:

- Appendix 1: Additional information about the audit.
- Appendix 2: Information we will need for the audit.

Please take the time to read this document thoroughly before returning the signed agreement. If there are additional matters that should be included, or any matters requiring clarification, please contact me.

Yours sincerely

Bede Kearney
Director
Audit New Zealand

Agreement to be signed

I acknowledge that the details of the audit set out here are in keeping with my understanding of the arrangements for the audit.

Signed _____ Date _____
Bruce Smith
Mayor

Details of the audit

1 Introduction

This document sets out the arrangements for the audit of Westland District Council (the District Council) for the year ending 30 June 2017. These include:

- business risks/issues and our audit response;
- areas of interest for all local authorities; and
- logistics (such as our audit team, timing, and fees).

2 Business risks/issues and our audit response

Based on the planning work and discussions that we have completed to date, we have identified what we consider to be the main business risks and issues facing the Local Authorities. Many of these risks and issues are relevant to the audit because they affect our ability to form an opinion on your financial statements. As part of the wider public sector audit, we are also required to be alert to issues of effectiveness and efficiency, waste and a lack of probity or financial prudence (as set out in the Audit Engagement Letter dated 24 May 2017).

The table below sets out the business risks and issues that we have identified in line with these requirements. The left column describes these risks and issues. The right column, describes how we plan to respond to these during the audit.

Business issues	Our audit response
Control environment	
The higher level control environment comprises governance and management actions which set the policies and parameters within which the organisation operates and also the process through which compliance with these, along with organisational performance, are monitored. The October 2016 election delivered a new council, with only one councillor returned from the previous council. In addition since then both the CEO and the CFO have resigned and the Assets Manager is on indefinite leave. These changes mean there is a significant risk that established processes and practices are not followed and that key aspects of the control environment are not effective.	Through discussion and observation, we gain an understanding of how key aspects of the high level control environment are operating. We will assess the impact of our findings on our audit. We will report any significant findings to Council and, if appropriate, make recommendations for improvement.
Internal controls in key financial and non-financial systems	
Each year we consider the District Council's control environment. As part of that we assess the effectiveness of the internal controls in the key financial and non-	We will review the District Council's structures, policies and practices, and complete testing over the internal controls in key financial and non-financial systems. We

Business issues	Our audit response
<p>financial systems. Our interim audit work is completed for the purpose of planning the most effective and efficient audit approach to obtaining reasonable assurance as to the reliability and accuracy of financial and non-financial reporting.</p> <p>A robust control environment should have appropriate segregation of duties in carrying out review and oversight activity. Segregating the review function and preparation function can be challenging for smaller entities with limited staff, where individual are required to carry out multiple roles. For the District Council this risk is further heightened due to the loss of experienced staff and positions being unfilled during the financial year.</p> <p>In our prior year reporting to the District Council we noted a number of improvements to the internal controls. Though, individually some of the issues are minor, collectively if not addressed these could have an impact on the effectiveness of the overall control environment.</p>	<p>will consider the effect of any changes in the overall control environment, on the reported the financial results, and levels of service as a result to staff changes.</p> <p>We will also follow up on any recommendations from our previous management report.</p>
Capacity and capability of the Finance team	
<p>Due to on-going staff changes over the past few years, the District Council's Finance team has been stretched for some time and their ability to deliver information for audit has been impacted by the lack of capacity in the Finance team.</p> <p>In 2016/17, the Finance team has lost the GM Corporate Services and the Strategy and Communications Advisor. Both roles have been critical in the recent years, to ensure that the District Council meets its reporting requirements, and statutory reporting deadline.</p> <p>The GM Corporate Services role has been vacant from early March to mid May. This position has been filled by the previous Finance manager. A replacement for the Finance manager has been appointed as well as an accountant has been appointed. Both will start at the District Council in late May. The Strategy and Communication Advisor position was vacant from late April and has not been filled yet but we understand a suitable applicant has been found and a job offer will be made soon.</p>	<p>We will continue to liaise closely with management on any changes to the Finance team and its ability to meet the agreed deliverables for the 2016/17 audit. Should any issues arise which put at risk of the District Council's ability to meet its reporting deadlines, we will discuss this in a timely manner so we can agree a joint response.</p>

Business issues	Our audit response
<p>For the year-end process to be successful The District Council will need to commit sufficient time and resources to the process, including meeting the agreed timetable as outlined in Appendix 2. We will need a full and auditable draft annual report at the start of the audit. For efficiency it is essential that the agreed information is provided within timetable as we do not have capacity to work alongside the Finance team while they prepare information we need on an “as you go” basis. The information provided to us should be independently reviewed internally prior to us receiving it. We would normally expect the GM Corporate Services to perform this review.</p> <p>If the information we require is not available in a timely manner, it is unlikely we will be able to complete our audit within the Council’s reporting deadline of 31 October 2017.</p>	
Statement of Service Performance (SSP)	
<p>2015/16 year was the first year that the District Council reported on the mandatory performance measures required by Department of Internal Affairs (DIA). Overall, the District Council’s reporting against the performance measures provided the reader with a reasonable perspective on its performance for the 2015/16 year. However, our audit noted a number of improvements as part of our review of its performance reporting.</p> <p>The District Council needs to develop systems or source information that enables it to report against all of the mandatory performance measures. Specifically the District Council needs to explore processes and controls that can be put into place to:</p> <ul style="list-style-type: none"> • ensure all customer services requests are recorded accurately in a consistent manner; • all services requests resolved need to be recorded and captured with enough detail to meet the DIA requirements, sufficiently capturing both the attendances times and resolution times; and 	<p>We will review the controls or process in place to enable the District Council to report against the mandatory measures.</p> <p>We will also follow up on any recommendations from our previous management report.</p>

Business issues	Our audit response
<ul style="list-style-type: none"> provide comprehensive training and develop comprehensive guidance material for the customer service staff that field calls in the first instance so that the classification for such events is constant and accurate. <p>The Strategy and Communication Advisor has been responsible for preparing the SSP and her departure means a significant loss of knowledge about the performance framework, the District Council's underlying systems and the key issues for telling the District Council's performance story.</p>	
Asset Management	
<p>As part of the 2015-25 Long Term Plan (LTP) audit we made a number of recommendations for improvements to asset management planning. In particular, to the District Council's understating of the condition of its infrastructure assets. This information can be used to drive better planning, enabling the District Council to more accurately plan, the maintenance and replacement of its assets.</p> <p>The District Council has committed to improvement in its asset information engaging a consultant to update the information within the asset management system (Asset Finda). Through this process all infrastructure assets have been captured and allocated a condition rating based on existing knowledge and visual site inspections. We understand that the consultant has also been engaged to help drafting and updating the asset management plans.</p> <p>We encourage the District Council to continue work on improving its assets information. As the 2018-28 LTP approaches this information should be used to inform the infrastructure strategy.</p>	<p>We will review the District Council's progress in updating its asset knowledge, and how this is reflected in its asset databases, asset management plans, and accounting fixed asset records.</p>
Fair Value assessment of Property, Plant and Equipment	
<p>PBE IPSAS 21 Impairment of Non-Cash-Generating Assets and PBE IPSAS 26 Impairment of Cash Generating Assets require assets held at cost to be assessed for indicators of impairment on an annual basis. PBE IPSAS 17 Property, Plant and Equipment requires revalued assets to be</p>	<p>We will review the District Council's fair value assessment, including whether there are any indicators of impairment, to confirm asset carrying values are in line with accounting standard requirements.</p>

Business issues	Our audit response
<p>carried at a revalued amount that does not differ materially from fair value as at reporting date.</p> <p>The relevant standards provide guidance on indicators that an asset may be impaired, and how impairment should be recognised.</p> <p>We expect the District Council to have completed an impairment assessment to determine whether any assets will need to be impaired. This assessment needs to be made at an early stage, to avoid the risk of this becoming a significant issue at a late stage in the audit.</p> <p>The District Council should consider indices' movements from when the assets were last revalued to determine whether the carrying value is materially different.</p> <p>If there is a material difference between the carrying value and the fair value, a revaluation may need to be performed.</p>	
Risk of management override	
<p>Management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it results in a risk of material misstatement due to fraud.</p>	<p>We will test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.</p> <p>We will review accounting estimates for biases and evaluate whether the circumstances producing the bias, if any represent a risk of material misstatement due to fraud.</p> <p>For any significant transactions that are outside the normal course of business, or that otherwise appear to be unusual given our understanding of the entity and its environment and other information obtained during the audit, we will evaluate whether the business rationale (or the lack thereof) of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets.</p>

3 Our areas of interest for all Local Government entities

There are also a number of key matters common to the Local Government sector. The table below outlines our areas of interest for this year's audit.

Area of interest	Our audit response
Rates	
<p>Rates are the District Council's primary funding source. Compliance with the Local Government (Rating) Act 2002 (LGRA) in rates setting and collection is critical to ensure that rates are validly set and not at risk of challenge. The District Council should ensure it has appropriate processes in place, including seeking legal advice where appropriate, to ensure compliance of their rates and rating processes with legislation.</p>	<p>We will again consider the District Council's compliance with those key aspects of the LGRA that potentially materially impact on the financial statements. Principally this means a focus on the rates setting process – the consistency and completeness of the resolution and the Funding Impact Statement (FIS). We may also review a sample of differentially set and/or targeted rates to assess whether the matters and factors used are consistent with the LGRA. We will follow up any issues identified from our review of rates in 2016.</p> <p>Our review of compliance with legislation is for the purposes of expressing our audit opinion. It is not, and should not be seen, as a comprehensive legal review. This is beyond the scope of the audit, and our expertise as auditors. The Council is responsible for ensuring that it complies with applicable laws and regulations.</p>
Related party transactions and conflicts of interest	
<p>Related party transactions represent an area of risk in most public sector entities. Conflicts of interest are an area of concern because of probity considerations. The Auditor-General continues to receive queries, and requests for inquiries, about conflicts of interest. A conflict of interest that is not well managed can create significant legal and reputational risks.</p> <p>The 2007 report on <i>Managing conflicts of interest: guidance for public entities</i> sets out the Auditor-General's view of what constitutes good practice in the public sector. It is the responsibility of the Council to identify and manage conflicts of interest.</p>	<p>We will update our understanding of how the District Council identifies, discloses, and manages related parties.</p> <p>We will review the related party information included in the financial statements and test the completeness of related party transactions disclosures.</p> <p>In the course of our usual audit work we will remain alert for conflicts of interest. Where we identify possible conflicts of interest that may not have been well managed, or that may create significant risks for the District Council, we will discuss these with management and if appropriate the Council.</p>
Fraud risk management	
<p>The auditing standard ISA (NZ) 240 The auditor's responsibilities relating to fraud in an audit of financial statements, issued by</p>	<p>We will review the District Council's fraud risk awareness, the identification of susceptible areas, and the mitigating controls that it has put in place.</p>

Area of interest	Our audit response
<p>the External Reporting Board, requires that we make enquiries of:</p> <ul style="list-style-type: none"> • entity management; and • those charged with governance <p>on matters such as their assessment of the risk of fraud and the accounting and internal control systems designed to prevent and detect frauds.</p> <p>We will seek a representation from the Council near the completion of the audit that it has disclosed to us any and all matters in relation to fraud.</p>	<p>Please notify us without delay of any serious fraud, whether suspected or discovered.</p> <p>When looking at the District Council's system of internal control to prevent and detect fraud, we will consider the:</p> <ul style="list-style-type: none"> • quality of documented delegations, authorisation and approval procedures and whether these are followed in practice; • adequacy of procurement policies and procedures particularly around how any conflict of interest is detected and managed; and • quality of documented sensitive expenditure policies and whether these are followed.
Legislative compliance	
<p>To discharge the Auditor-General's mandate, we carry out an audit of legislative compliance. We limit this review to obtaining assurance that the District Council has complied with significant legislative requirements that may directly affect the financial statements or general accountability. Our review does not cover all of the District Council's legislative compliance requirements.</p>	<p>Our approach involves assessing the systems and procedures that the District Council has in place to ensure compliance with significant legislation.</p> <p>We will also complete our own checklists covering the key requirements of significant legislation. Principally our focus in this area is on the accountability requirements under the Local Government Act 2002 and Rates setting under the Local Government (Rating) Act 2002.</p>
Control environment – probity and transparency	
<p>Under our audit mandate, we are required be alert for and review matters of effectiveness and efficiency, waste, and a lack of probity or financial prudence. These matters could include the following:</p> <ul style="list-style-type: none"> • Situations where those in governance or management roles have conflicts of interest. • The payment of unusually high or unjustifiable fees to those in a governance role. • Excessive or unusual ex gratia payments made to employees. • Frequent overriding of policies for sensitive expenditure. 	<p>In the course of our usual audit work we will remain alert for matters of performance, waste and probity. Specifically, we will:</p> <ul style="list-style-type: none"> • Remain alert for conflicts of interest. It is important that both the District Council and councillors identify and manage compliance with the Local Government (Members' Interests) Act 1968. • Confirm that the District Council has complied with the relevant Local Government Elected Members Determination and disclosed the remuneration of each member in the annual report. • Review a sample of severance payments made by the District Council and confirm that these

Area of interest	Our audit response
	<p>payments are disclosed appropriately in the annual report.</p> <ul style="list-style-type: none"> Review a sample of sensitive expenditure transactions for compliance with the District Council's internal policies.

We will also follow up on progress made by the District Council in its response to our previous recommendations.

Please tell us about any additional matters that we should be aware of as your auditor, and any specific significant business risks that we have not covered.

4 Logistics

4.1 Our audit team

The Audit New Zealand staff involved in the audit are:

Bede Kearney	Director
Karina Page	Audit Manager
Trevor Makanza	Audit Supervisor

4.2 Important dates in the audit process

Our proposed timetable is:

	Date
Interim audit begins	26 June 2017
Draft interim management report issued	4 August 2017
Draft financial statements available for audit ¹	22 September 2017
Final audit begins	25 September 2017
Final financial statements provided ² to audit	19 October 2017
Audit clearance given	24 October 2017
Audit opinion issued	26 October 2017
Draft final detailed management report issued	20 November 2017

4.3 Our interim audit visit

We will carry out the interim audit in the week beginning 26 June 2017. During this visit, we will focus on updating our understanding of the District Council's control environment. This includes reviewing the higher level control environment, including, risk assessment processes, and relevant aspects of key financial and non-financial information systems' controls. We will use the results of this assessment to determine how much we can rely on the information produced from these systems during our final audit.

¹ Financial statements (including notes to the financial statements) with actual year-end figures.

² Financial statements incorporating all the amendments agreed to between the District Council and Audit New Zealand.

4.4 Our final audit visit

Our final audit is scheduled to start on 25 September 2017 and is expected to last four weeks. During this visit we will be auditing the balances, disclosures, and other information included in your financial statements.

4.5 Professional fees

Our audit fee for the year ending 30 June 2017 is \$136,000 plus disbursements (GST exclusive). This is as set out in the Audit Proposal Letter dated 24 May 2017.

The fee assumes that the expectations discussed in Appendix 1 will be met. If this does not occur, or the scope of the audit changes, we will discuss this further with you.

We propose to bill as follows:

	Amount
May 2017	20,000
June 2017	20,000
July 2017	20,000
September 2017	10,000
October 2017	50,000
November 2017	16,000
	<u>\$136,000</u>

We will bill disbursements progressively.

To ensure we can complete the audit within the proposed time frame (see section 4.2) and agreed fee, it is critical that you make appropriate supporting documentation available to us on a timely basis. If this is not the case, it is likely to result in cost overruns, which we will seek to recover from you. In Appendix 2, we have listed the information that we will need during the audit.

Appendix 1: Additional information about the audit

Our reporting protocols

Management reports

We will provide a draft of all management reports to management for discussion/clearance purposes. In the interests of timely reporting, we ask management to provide their comments on the draft within 10 working days. Once management comments are received the report will be finalised and provided to the Council.

Reporting of misstatements

We will include details of all uncorrected misstatements in our management report. Misstatements are differences in, or omissions of, amounts and disclosures that may affect a reader's overall understanding of the District Council's financial statements.

During the audit, we will provide details of any such misstatements we identify to an appropriate level of management. We will ask for each misstatement to be corrected in the District Council's financial statements. Where management does not wish to correct a misstatement we will seek written representations from representatives of the District Council's governing body that specify the reasons why the corrections will not be made.

Our expectations of you to enable an efficient audit

To enable us to carry out our audit efficiently within the proposed audit fee, we expect that:

- the District Council will provide us with access to all relevant records and provide information in a timely manner;
- your staff will provide an appropriate level of assistance;
- the financial statements will be available at the start of the final audit, include all relevant disclosures, and be fully supported by a detailed workpaper file; and
- the annual report and financial statements (including the statement of service performance) will be subjected to appropriate levels of quality review before submission for audit.

Our audit fee is based on the assumption that we will review no more than two sets of the draft annual report, one printer's proof copy of the annual report, and one copy of the electronic version of the annual report for publication on the District Council's website.

How we consider your compliance with statutory authority

As part of the Auditor-General's mandate, we carry out an audit of compliance with statutory authority. Our audit is limited to obtaining assurance that you have complied with certain laws and regulations that may directly affect the District Council's financial statements or general accountability. Our audit does not cover all of the District Council's requirements to comply with statutory authority.

Our approach to this aspect of the audit will mainly involve assessing the systems and procedures that are in place to ensure compliance with certain laws and regulations that we consider to be significant. We will also complete our own checklists covering the key requirements of significant legislation. In addition, we will remain alert for any instances of non-compliance that come to our attention. We will evaluate the relevance of any such non-compliance to our audit.

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Appendix 2: Information we will need

In the table below we have listed the information that we will need during the audit. It would be helpful if you could record in the table who will take responsibility for preparing this information and when you expect it to be available. This will help us to plan the audit.

Information we will need	Responsible person	Date provided to Audit NZ
Draft financial statements		
A complete set of financial statements with all balances that agree to supporting "leadsheets". These should include the accounting policies, a Statement of Comprehensive Income, a Statement of Changes in Equity, a Balance Sheet, a Statement of Cash Flows, and the notes to the accounts including all the LGA and prudence benchmark disclosures and Funding Impact Statements.	Finance Manager	22/09/17
A draft Statement of Service Performance.	Strategy and Communication Advisor	22/09/17
Mayor and Chief Executive report		
Mayor's and Chief Executive's overview or reports.	Strategy and Communication Advisor	9/10/17
Trial balance		
Copy of the trial balance from which accounts were prepared.	Accountant	25/09/17
Supporting documentation for any adjustments between the general ledger and the financial statements.		
General information		
Supporting schedules for all balances with figures for the current year, budget and last year, along with the dollar and percentage movement. Explanations for variances \pm \$90,000.	Accountant	25/09/17
Additional, more detailed, supporting schedules where balances are made up of a number of GL accounts providing the applicable GL code. This should clearly show which ledger account codes combine to form each individual figure in the financial statements.		
Statement of Cash Flows		
Workpapers clearly documenting how the figures in the Statement of Cash Flows were calculated.	Finance Manager	25/09/17
Reconciliation of all figures in the Statement of Cash Flows back to the Statement of Comprehensive Income and Balance Sheet and supporting schedules.		

Information we will need	Responsible person	Date provided to Audit NZ
Minutes		
The District Council and sub-committee minutes for the year ending 30 June 2017 and all subsequent minutes up to the date the audit opinion is signed.	PA to the CEO	26/06/17 & 25/09/17
Cash and bank		
List of all bank accounts and bank numbers. List of authorised cheque signatories as issued to the banks identified above. Bank account reconciliations to 30 June 2017 including:	Accountant	25/09/17
Debtors		
Debtors and accruals listing, reflecting gross receivable and ageing. Supporting documentation for all debtors and accruals over \$50,000. Reconciliation of debtors listing to general ledger. Details of provision for doubtful debts calculation. Schedule of all debtors written off during the period. Debtor account reconciliations for the year to 30 June 2017.	Accountant	25/09/17
Other financial assets/ Investments in Council Controlled Organisations		
Summary of investments held at 30 June 2017 including all shares, options and other financial assets. The schedule should show all movements during the year. Details of split between current and term investments Supporting documentation to demonstrate impairment testing has been done on all investments.	Accountant Finance Manager	25/09/17 25/09/17
Property, plant and equipment (including infrastructural assets)		
Fixed asset register. Movement reconciliation for the year outlining additions, disposals, and depreciation. Supporting documentation for additions/disposals and write off of any assets. Reconciliation of fixed asset register to the general ledger. Schedule of capital work in progress at 30 June 2017 and an indication of when each asset is likely to start accruing benefits and when it is likely to be operational.	Accountant	25/09/17

Information we will need	Responsible person	Date provided to Audit NZ
Vested assets		
Complete listing of all vested assets and supporting information for the valuation of those assets.	Accountant	25/09/17
Asset fair value assessments		
Management's fair value assessments with supporting workpapers for all classes of assets not being revalued	Finance Manager	26/06/17
Creditors and accruals		
Complete listing of accruals as at 30 June 2017. Supporting documentation for all creditors and accruals over \$50,000. Listing of all payables, creditors aged trial balance and reconciliation of creditors control to the general ledger. Detailed schedule of income in advance, with supporting documentation, reconciled to the general ledger.	Accountant	25/09/17
Provisions		
Listing of employee entitlements with supporting schedules. Supporting documentation for all other provisions over \$50,000. Including land fill provision.	Accountant	25/09/17
Debt		
Summary of debt held at 30 June 2017. The schedule should show all movements during the year. Supporting documentation for all debt held at 30 June 2017. Details of split between current and term debt. Contractual maturity analysis workings.	Accountant	25/09/17
Suspense accounts		
List of all suspense accounts as at 30 June 2017.	Accountant	25/09/17
Equity		
Supporting documentation for any movement in equity not attributable to the net surplus or deficit.	Accountant	25/09/17
Commitments		
Schedule of commitments at 30 June 2017. Supporting documentation for all commitments over \$50,000.	Accountant	25/09/17

Information we will need	Responsible person	Date provided to Audit NZ
Contingencies		
Schedule of all contingencies and guarantees at 30 June 2017.	Finance Manager	25/09/17
Supporting documentation for all individual items. Names and addresses of all solicitors/barristers used by the District Council.	Finance Manager	26/06/17
Tax		
GST returns to 30 June 2017. A reconciliation of the balance of GST payable in the general ledger to the last GST return. The current year tax calculation, deferred tax proof, and supporting work papers. The latest IRD statement of account for income tax (if any). All tax advice, binding ruling applications, tax compliance reports, and IRD correspondence.	Finance Manager	25/09/17
Revenue – 2017/18 Rates		
Copy of public notice of the availability of the RID. Supporting calculations for 30% rates cap. Copy of rates resolution for the year.	Rates officer & Finance Manager	10/07/17
Revenue – 2016/17 Rates		
Rates statement showing all rates levied, collected and written off reconciled to the general ledger.	Rates officer & Finance Manager	25/09/17
Revenue – NZTA funding		
Copy of any NZTA audit reports. Explanations for variances greater than \$90,000 when the figure is compared to the previous year and budget. Reconciliation between NZTA confirmation and general ledger. Supporting schedule for NZTA revenue claimed and accrued for the financial year.	Assets Manager & Finance Manager	25/09/17
Revenue – other		
A listing of the breakdown of other revenue, fees and charges for the financial year. Explanations for variances greater than \$90,000 when the figure is compared to the previous year and budget at a financial statement and notes level.	Finance Manager	25/09/17

Information we will need	Responsible person	Date provided to Audit NZ
Expenditure		
<p>A listing of the breakdown of expenditure (by nature and by activity) for the financial year.</p> <p>At financial statement and an activity statement level only, a comparison (with explanations of variances greater than \$90,000) of the actual expenditure for this year against:</p> <ul style="list-style-type: none"> • the budget for this year; and • actual for the previous year. 	Finance Manager	25/09/17
Payroll		
<p>A reconciliation of the payroll system and the general ledger for the year.</p> <p>Schedule of any major changes and effective date, for example, wage increases since the last audit, a listing of new employees and leavers for the financial year with their effective dates and salary paid.</p> <p>FTE numbers as at 30 June 2016 and 30 June 2017</p> <p>Schedules/workpapers supporting annual, retirement, and long service leave accruals (reconciled to the general ledger and the financial statements) and other employment related disclosures.</p>	Finance Manager & Payroll officer	25/09/17
Service performance reporting		
<p>Evidence to support the reported performance (includes performance measures and performance story) in the Statement of Service Performance.</p> <p>Explanations for significant matters reported including variances.</p>	Strategy and Communication Advisor	25/09/17

30 May 2017

Level 3, 335 Lincoln Road
PO Box 2, Christchurch 8140

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Fax: 03 961 3059

Mr Bruce Smith
Mayor
Westland District Council
Private Bag 704
Hokitika 7842

Dear Bruce

Audit engagement letter

This audit engagement letter is sent to the council on behalf of the Auditor-General who is the auditor of all “public entities”, including Westland District Council (the District Council) and Group, under section 14 of the Public Audit Act 2001 (the Act). The Auditor-General has appointed me, Bede Kearney, using the staff and resources of Audit New Zealand, under section 32 and 33 of the Act, to carry out the annual audits of the District Council and group’s financial statements and performance information. We will be carrying out these annual audits on the Auditor-General’s behalf, for the years ending 30 June 2017 to 30 June 2019.

This letter outlines:

- the terms of the audit engagement and the nature, and limitations, of the annual audit; and
- the respective responsibilities of the Council and me, as the Appointed Auditor, for the financial statements and performance information.

The objectives of the annual audit are:

- to provide an independent opinion on the District Council and group’s financial statements and performance information; and
- to report on other matters that come to our attention as part of the annual audit (typically those matters will relate to issues of financial management and accountability).

We will carry out the audit in accordance with the Auditor-General’s Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board (collectively the Auditing Standards). The Auditing Standards require that we comply with ethical requirements, and plan and perform the annual audit to obtain reasonable assurance about whether the District Council and group’s financial statements and performance information are free from material misstatement. The Auditing Standards also require that we remain alert to issues of concern to the Auditor-General. Such issues tend to relate to matters

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of financial management and accountability.

The council's responsibilities

Our audit will be carried out on the basis that the Council acknowledges that it has responsibility for:

- preparing the financial statements and performance information in accordance with any applicable legal requirements and financial reporting standards;
- having such internal control as determined necessary to enable the preparation of financial statements and performance information that are free from material misstatement, whether due to fraud or error; and
- providing us with:
 - access to all information relevant to preparing the financial statements and performance information such as records, documentation, and other information;
 - all other information, in addition to the financial statements and performance information, to be included in the annual report;
 - additional information that we may request from the District Council and group for the purpose of the audit;
 - unrestricted access to Council members and employees that we consider necessary; and
 - written confirmation concerning representations made to us in connection with the audit.

In addition, the Council is responsible:

- for the preparation of the summary financial statements and summary performance information;
- for making the audited summary financial statements and summary performance information readily available to the intended users of that information; and
- for including our audit report on the summary financial statements and summary performance information in any document that contains that information and that indicates that we have reported on that information.

The Council's responsibilities extend to all resources, activities, and entities under its control. We expect that the Council will ensure:

- the resources, activities, and entities under its control have been operating effectively and efficiently;
- it has complied with its statutory obligations including laws, regulations, and contractual requirements;
- it has carried out its decisions and actions with due regard to minimising waste;

- it has met Parliament's and the public's expectations of appropriate standards of behaviour in the public sector in that it has carried out its decisions and actions with due regard to probity; and
- its decisions and actions have been taken with due regard to financial prudence.

We expect the Council and/or the individuals within the District Council and group with delegated authority, to immediately inform us of any suspected fraud, where there is a reasonable basis that suspected fraud has occurred – regardless of the amount involved. Suspected fraud also includes instances of bribery and/or corruption.

The Council has certain responsibilities relating to the preparation of the financial statements and performance information and in respect of financial management and accountability matters. These specific responsibilities are set out in Appendix 1. Appendix 2 contains some additional responsibilities relating to the health and safety of audit staff. We expect members of the Council to be familiar with those responsibilities and, where necessary, have obtained advice about them.

The Council should have documented policies and procedures to support its responsibilities. It should also regularly monitor performance against its objectives.

Our responsibilities

Carrying out the audit

We are responsible for forming an independent opinion on whether the financial statements of the District Council and group:

- present fairly, in all material respects:
 - its financial position; and
 - its financial performance and cash flows for the financial year;
- comply with generally accepted accounting practice in New Zealand in accordance with International Public Sector Accounting Standards.

We are also responsible for forming an independent opinion on whether the performance information of the District Council and group:

- presents fairly, in all material respects, the performance for the financial year, including:
 - its performance achievements as compared with forecasts included in the Statement of Service Performance for the financial year; and
 - its actual revenue and expenses as compared with the forecasts included in Statement of Comprehensive Revenue and Expense for the financial year. and
- complies with generally accepted accounting practice in New Zealand.

An audit involves obtaining evidence about the amounts and disclosures in the financial statements and performance information. How we obtain this information depends on our

judgement, including our assessment of the risks of material misstatement of the financial statements and performance information, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements and performance information.

We do not examine every transaction, nor do we guarantee complete accuracy of the financial statements and performance information. Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with the Auditing Standards.

During the audit, we obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District Council's internal controls. However, we will communicate in writing about any significant deficiencies in internal control relevant to the audit of the financial statements and performance information that we identify during the audit.

During the audit, the audit team will:

- be alert for issues of effectiveness and efficiency – in particular, how the Council and the District Council and group have carried out their activities;
- consider laws and regulations relevant to the audit;
- be alert for issues of waste – in particular, whether the Council obtained and applied the resources of the District Council and group in an economical manner, and whether any resources are being wasted;
- be alert for issues of a lack of probity – in particular, whether the Council and the District Council and group have met Parliament's and the public's expectations of appropriate standards of behaviour in the public sector; and
- be alert for issues of a lack of financial prudence.

Our independence

It is essential that the audit team and Audit New Zealand remain both economically and attitudinally independent of District Council and group; including being independent of management personnel and members of the Council). This involves being, and appearing to be, free of any interest that might be regarded, whatever its actual effect, as being incompatible with the objectivity of the audit team and the Audit New Zealand.

To protect our independence, specific limitations are placed on us in accepting engagements with the Council other than the annual audit. We may accept certain types of other engagements, subject to the requirements of the Auditing Standards. Any other engagements must be the subject of a separate written arrangement between the Council and me or Audit New Zealand.

Reporting

We will issue an independent audit report that will be attached to the financial statements and performance information. This report contains our opinion on the fair presentation of the

financial statements and performance information and whether they comply with the applicable reporting requirements. The audit report may also include comment on other financial management and accountability matters that we consider may be of interest to the addressee of the audit report.

In addition, we will issue an audit report that will be attached to the summary financial statements and summary performance information. This audit report will contain an opinion that provides the same level of assurance as the audit report on the full financial statements and full performance information.

We will also issue a management letter that will be sent to the Council. This letter communicates any matters that come to our attention during the audit that, in our opinion, are relevant to the Council. Typically those matters will relate to issues of financial management and accountability. We may also provide other management letters to the District Council and group from time to time. We will inform the Council of any other management letters we have issued.

Please note that the Auditor-General may publicly report matters that are identified in the annual audit, in keeping with section 21 of the Public Audit Act 2001.

Next steps

Please acknowledge receipt of this letter and the terms of the audit engagement by signing the letter in the space provided and returning a copy to me. The terms will remain effective until a new Audit Engagement Letter is issued.

If the council has any questions about the audit generally, or has any concerns about the quality of the audit, it should contact me as soon as possible. If after contacting me it still has concerns, it should contact the Director of Auditor Appointments at the Office of the Auditor-General on (04) 917 1500.

If the council requires any further information, or wish to discuss the terms of the audit engagement further before replying, please do not hesitate to contact me.

Yours sincerely

[Signature of Appointed Auditor]

.....
Bede Kearney
Appointed Auditor
On behalf of the Auditor-General

I acknowledge the terms of this engagement and that I have the required authority on behalf of the Council.

Signature:

Name: ...Bruce Smith.....

Title: ...Mayor..... Date:

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Appendix 1: Respective specific responsibilities of the Council and the Appointed Auditor

Responsibilities of the Council	Responsibility of the Appointed Auditor
Responsibilities for the financial statements and performance information	
<p>The council is required by legislation to prepare financial statements and performance information in accordance with legal requirements and financial reporting standards.</p> <p>The council must also ensure that any accompanying information in the annual report is consistent with that reported in the audited financial statements and performance information.</p> <p>The council is required by legislation to prepare the financial statements and performance information and provide that information to us before the statutory reporting deadline. It is normal practice for the council to set its own timetable to comply with statutory reporting deadlines. To meet the reporting deadlines, we are dependent on receiving the financial statements and performance information ready for audit and in enough time to enable the audit to be completed. "Ready for audit" means that the financial statements and performance information have been prepared in accordance with legal requirements and financial reporting standards, and are supported by proper accounting records and complete evidential documentation.</p>	<p>We are responsible for carrying out an annual audit, on behalf of the Auditor-General. We are responsible for forming an independent opinion on whether the financial statements:</p> <ul style="list-style-type: none"> • present fairly, in all material respects: <ul style="list-style-type: none"> ○ the financial position; and ○ the financial performance and cash flows for the financial year; • comply with generally accepted accounting practice in New Zealand in accordance with International Public Sector Accounting Standards. <p>We are also responsible for forming an independent opinion on whether the performance information:</p> <ul style="list-style-type: none"> • presents fairly, in all material respects, the performance for the financial year, including: <ul style="list-style-type: none"> ○ the performance achievements as compared with forecasts included in the statement of service performance for the financial year; and ○ the actual revenue and expenses as compared with the forecasts included in the Statement of Comprehensive Revenue and Expense for the financial year. and • complies with generally accepted accounting practice in New Zealand. <p>We will also read the other information accompanying the financial statements and performance information and consider whether there are material inconsistencies with the audited financial statements and performance information.</p>

Responsibilities of the Council	Responsibility of the Appointed Auditor
	<p>Materiality is one of the main factors affecting our judgement on the areas to be tested and on the timing, nature, and extent of the tests and procedures performed during the audit. In planning and performing the annual audit, we aim to obtain reasonable assurance that the financial statements and performance information do not have material misstatements caused by either fraud or error. Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence the audit report addressee's overall understanding of the financial statements and performance information.</p> <p>If we find material misstatements that are not corrected, they will be referred to in the audit opinion. The Auditor-General's preference is for the council to correct any material misstatements and avoid the need for them to be referred to in the audit opinion.</p> <p>An audit also involves evaluating:</p> <ul style="list-style-type: none"> • the appropriateness of accounting policies used and whether they have been consistently applied; • the reasonableness of the significant accounting estimates and judgements made by those charged with governance; • the appropriateness of the content and measures in any performance information; • the adequacy of the disclosures in the financial statements and performance information; and • the overall presentation of the financial statements and performance information. <p>We will ask the council for written confirmation of representations made about the financial statements and performance information. In particular, we will seek confirmation that:</p> <ul style="list-style-type: none"> • the adoption of the going concern basis of accounting is appropriate; • all material transactions have been recorded and are reflected in the financial statements and performance information;

Responsibilities of the Council	Responsibility of the Appointed Auditor
	<ul style="list-style-type: none"> • all instances of non-compliance or suspected non-compliance with laws and regulations have been disclosed to us; and • uncorrected misstatements noted during the audit are immaterial to the financial statements and performance information. <p>Any representation made does not in any way reduce our responsibility to perform appropriate audit procedures and enquiries.</p> <p>We will ensure that the annual audit is completed by the reporting deadline or, if that is not practicable because of the non-receipt or condition of the financial statements and performance information, or for some other reason beyond our control, as soon as possible after that.</p> <p>The work papers that we produce in carrying out the audit are the property of the Auditor-General. Work papers are confidential to the Auditor-General and subject to the disclosure provisions in section 30 of the Public Audit Act 2001.</p>
Responsibilities for the accounting records	
<p>The council is responsible for maintaining accounting and other records that:</p> <ul style="list-style-type: none"> • correctly record and explain the transactions of District Council and group; • enable the council to monitor the resources, activities, and entities under its control; • enable the District Council and group's financial position to be determined with reasonable accuracy at any time; • enable the council to prepare financial statements and performance information that comply with legislation (and that allow the financial statements and performance information to be readily and properly audited); and • are in keeping with the requirements of the Commissioner of Inland Revenue. 	<p>We will perform sufficient tests to obtain reasonable assurance as to whether the underlying records are reliable and adequate as a basis for preparing the financial statements and performance information.</p> <p>If, in our opinion, the records are not reliable or accurate enough to enable the preparation of the financial statements and performance information and the necessary evidence cannot be obtained by other means, we will need to consider the effect on the audit opinion.</p>
Responsibilities for accounting and internal control systems	
<p>The council is responsible for establishing and maintaining accounting and internal control systems (appropriate to the size of District Council and group), supported by written policies and procedures, designed to provide reasonable</p>	<p>The annual audit is not designed to identify all significant weaknesses in the District Council's accounting and internal control systems. We will review the accounting and internal control systems only to the extent required to express an opinion</p>

Responsibilities of the Council	Responsibility of the Appointed Auditor
<p>assurance as to the integrity and reliability of financial and performance information reporting.</p>	<p>on the financial statements and performance information.</p> <p>We will report to the council separately, on any significant weaknesses in the accounting and internal control systems that come to our notice and that we consider may be relevant to it. Any such report will provide constructive recommendations to assist the council to address those weaknesses.</p>
Responsibilities for preventing and detecting fraud and error	
<p>The responsibility for the prevention and detection of fraud and error rests with the council, through the implementation and continued operation of adequate internal control systems (appropriate to the size of District Council and group) supported by written policies and procedures.</p> <p>We expect the council to formally address the matter of fraud, and formulate an appropriate policy on how to minimise it and (if it occurs) how it will be dealt with. Fraud also includes bribery and corruption.</p> <p>We expect the council to consider reporting all instances of actual, suspected, or alleged fraud to the appropriate law enforcement agency, which will decide whether proceedings for a criminal offence should be instituted. We expect the council to immediately inform us of any suspected fraud where it, and/or any individuals within the District Council and group with delegated authority have a reasonable basis that suspected fraud has occurred - regardless of the amount involved.</p>	<p>We design our audit to obtain reasonable, but not absolute, assurance of detecting fraud or error that would have a material effect on the financial statements and performance information. We will review the accounting and internal control systems only to the extent required for them to express an opinion on the financial statements and performance information, but we will:</p> <ul style="list-style-type: none"> • obtain an understanding of internal control and assess its ability for preventing and detecting material fraud and error; and • report to the council any significant weaknesses in internal control that come to our notice. <p>We are required to immediately advise the Office of the Auditor-General of all instances of actual, suspected, or alleged fraud.</p> <p>As part of the audit, the council will be asked for written confirmation that it has disclosed all known instances of actual, suspected, or alleged fraud to us.</p> <p>If we become aware of the possible existence of fraud, whether through applying audit procedures, advice from the council, or management, or by any other means, we will communicate this to the council with the expectation that it will consider whether it is appropriate to report the fraud to the appropriate law enforcement agency. In the event that the council does not report the fraud to the appropriate law enforcement agency, the Auditor-General will consider doing so, if it is appropriate for the purposes of protecting the interests of the public.</p>

Responsibilities of the Council	Responsibility of the Appointed Auditor
Responsibilities for compliance with laws and regulations	
<p>The council is responsible for ensuring that District Council and group has systems, policies, and procedures (appropriate to the size of District Council and group) to ensure that all applicable legislative, regulatory, and contractual requirements that apply to the activities and functions of District Council and group are complied with. Such systems, policies, and procedures should be documented.</p>	<p>We will obtain an understanding of the systems, policies, and procedures put in place for the purpose of ensuring compliance with those legislative and regulatory requirements that are relevant to the audit. Our consideration of specific laws and regulations will depend on a number of factors, including:</p> <ul style="list-style-type: none"> • the relevance of the law or regulation to the audit; • our assessment of the risk of non-compliance; • the impact of non-compliance for the addressee of the audit report <p>The way in which we will report instances of non-compliance that come to our attention will depend on considerations of materiality or significance. We will report to the council and to the Auditor-General all material and significant instances of non-compliance.</p> <p>We will also report to the council any significant weaknesses that we observe in internal control systems, policies, and procedures for monitoring compliance with laws and regulations.</p>
Responsibilities to establish and maintain appropriate standards of conduct and personal integrity	
<p>The council should at all times take all practicable steps to ensure that its members and employees maintain high standards of conduct and personal integrity. It should document its expected standards of conduct and personal integrity in a “Code of Conduct” and, where applicable, support the “Code of Conduct” with policies and procedures.</p> <p>The expected standards of conduct and personal integrity should be determined by reference to accepted “Codes of Conduct” that apply to the public sector.</p>	<p>We will have regard to whether the council maintains high standards of conduct and personal integrity – particularly in matters relating to financial management and accountability. Specifically, we will be alert for significant instances where members and employees of District Council and group may not have acted in accordance with the standards of conduct and personal integrity expected of them.</p> <p>The way in which we will report instances that come to our attention will depend on significance. We will report to the council and to the Auditor-General all significant departures from expected standards of conduct and personal integrity that come to our attention during the audit.</p> <p>The Auditor-General, on receiving a report from us, may, at his discretion and with consideration of its significance, decide to conduct a performance audit of, or an inquiry into, the matters raised. The performance audit or inquiry will be subject to specific terms of reference, in</p>

Responsibilities of the Council	Responsibility of the Appointed Auditor
	consultation with the council. Alternatively, the Auditor-General may decide to publicly report the matter without carrying out a performance audit or inquiry.
Responsibilities for conflicts of interest and related parties	
<p>The council should have policies and procedures to ensure that its members and employees carry out their duties free from bias.</p> <p>It should maintain a full and complete record of related parties and their interests. It is the council's responsibility to record and disclose related-party transactions in the financial statements and performance information in accordance with generally accepted accounting practice.</p>	<p>To help determine whether the council members and employees have carried out their duties free from bias, we will review information provided that identifies related parties, and will be alert for other material related-party transactions. Depending on the circumstances, we may enquire whether the council has complied with any statutory requirements for conflicts of interest and whether these transactions have been properly recorded and disclosed in the financial statements and performance information.</p>
Responsibilities for publishing the audited financial statements on a website	
<p>The council is responsible for the electronic presentation of the financial statements and performance information on the public entity's website. This includes ensuring that there are enough security and controls over information on the website to maintain the integrity of the data presented.</p> <p>If the audit report is reproduced in any medium, the council should present the complete financial statements, including notes, accounting policies, and any other accountability statements.</p>	<p>Examining the controls over the electronic presentation of audited financial statements and performance information, and the associated audit report, on the District Council's website is beyond the scope of the annual audit.</p>

Appendix 2: Health and safety of audit staff

The Auditor-General and Audit New Zealand take seriously their responsibility to provide a safe working environment for audit staff. Under the Health and Safety at Work Act 2015 we need to make arrangements with the council to keep our audit staff safe while they are working at its premises. We expect the council to provide a work environment for our audit staff that is without risks to their health and safety. This includes providing adequate lighting and ventilation, suitable desks and chairs, and safety equipment, where required. We also expect the council to provide them with all information or training necessary to protect them from any risks they may be exposed to at its premises. This includes advising them of emergency evacuation procedures and how to report any health and safety issues.

DRAFT

30 May 2017335 Lincoln Road, Addington
PO Box 2, Christchurch 8140www.auditnz.govt.nz
Fax: 03 961 3059Bruce Smith
Mayor
Westland District Council
Private Bag 704
Hokitika 7842Copy: Ref.: EN/LCA/03-0052
Director Auditor Appointments
Office of the Auditor-General
PO Box 3928
Wellington 6140

Dear Bruce

Proposal to conduct the audit of Westland District Council on behalf of the Auditor-General for the 2017, 2018 and 2019 financial years**1 Introduction**

The Auditor-General has appointed me to carry out the audit of your organisation for the next three years. As required by the Office of the Auditor-General (OAG), I set out below information relating to the audit for the three financial years ending 30 June 2017, 2018 and 2019. The purpose of this proposal is to provide information on:

- the statutory basis for the audit and how audit fees are set;
- the entities covered by this proposal;
- key members of the audit team;
- the hours we plan to spend on the audit and reasons for any change in hours;
- our proposed fees for the audit for the financial years ending 30 June 2017, 2018 and 2019 and reasons for any change;
- assumptions relating to the proposed audit fees, including what we expect of your organisation;
- what the OAG overhead charge provides;
- certification required by the Auditor-General; and
- our commitment to conduct the audit in accordance with the Auditor-General's Auditing Standards.

2 Statutory basis for the audit and how audit fees are set

The audit of your organisation is carried out under Section 15 of the Public Audit Act 2001, which states that “the Auditor-General must from time to time audit the financial statements, accounts, and other information that a public entity is required to have audited”.

Fees for audits of public entities are set by the Auditor-General under section 42 of the Public Audit Act 2001. However, the Council and I have the opportunity to reach agreement first and recommend those fees for approval. The Auditor-General, with assistance from the OAG, will set audit fees directly only if we fail to reach agreement.

Our proposed audit fees are set out in this letter and include an estimate of the reasonable cost of disbursements (including travel and accommodation where necessary).

3 Entities covered by this proposal

This proposal covers the audit of Westland District Council.

4 Key members of the audit team

Appointed Auditor
Audit Manager

Bede Kearney
Karina Page

5 Estimated audit hours

We estimate that the following hours will be required to carry out the audits (compared to budgeted and actual data from the previous financial year):

Audit team member	2016 budget	2016 actual	2017	2018	2019
Appointed Auditor	75	59	65	65	65
Audit Manager	85	92	85	85	85
Other CA qualified staff	160	388	265	265	265
Non CA qualified staff	370	463	310	310	310
Information Systems	20	2	12	12	12
Tax	2	1	2	2	2
Sector specialist support	8	8	8	8	8
Total audit hours	720	1,013	747	747	747

5.1 Reasons for changes in audit hours

The major reasons for the changes in hours for your organisation's audit are:

Reasons for increased or decreased audit hours compared to previous period <u>budgeted</u> hours:	2017	2018	2019
1. Changes to mandatory auditing procedures	20		
2. Impact of changes to group structure on the group consolidation.	3		
3. We have changed the hours and mix to better reflect the work we need to do on an on-going basis. These hours do not reflect the time actually taken in recent years.	4		
4. Total increase in audit hours	27		

- 1 Changes to the Local Government Act 2002 and the Local Government (Financial Reporting and Prudence) Regulations 2014 require additional reporting disclosures by councils. These additional disclosures have to be audited as part of the annual report.
- 2 The winding up of Westland Holdings Limited (WHL) and the merging of Hokitika Airport Limited and Westland District Property Limited will mean the remaining entities are each consolidated directly into the group financial statements rather than through WHL.
- 3 This is the net effect of changes in our audit approach and our staffing. There is no impact on the proposed fee from these changes.
- 4 While the proposed hours are significantly below the actual hours taken in recent years, there is potential for even further reductions if the District Council's systems and processes improve sufficiently. If this occurs and our hours and costs fall below those in this proposal, we will charge the lesser amount.

6 Proposed audit fees

Our proposed fees for the next three audits (compared to budgeted and actual data from the previous financial year) are:

Structure of audit fees	2016 budget	2016 actual	2017	2018	2019
	\$	\$	\$	\$	\$
Net audit fee (excluding OAG overhead and disbursements)	118,334	118,334	125,800	127,600	129,400
OAG overhead charge	9,666	9,666	10,200	10,400	10,600
Total audit fee (excluding disbursements)	128,000	128,000	136,000	138,000	140,000
Estimated disbursements	10,000	17,260	12,000	12,000	12,000
Total billable audit fees and charges	138,000	145,260	148,000	150,000	152,000

3

Structure of audit fees	2016 budget	2016 actual	2017	2018	2019
	\$	\$	\$	\$	\$
GST	20,700	21,789	22,200	22,500	22,800
Total (including GST)	158,700	167,049	170,200	172,500	174,800

The audit fees allow for the audit team to carry out specific tasks identified in the OAG Sector Brief and for the OAG overhead charge. We have also estimated the reasonable cost of disbursements (including travel and accommodation where necessary). Disbursement costs are indicative only and will be charged on an actual and reasonable basis.

6.1 Reasons for changes in audit fees

The main changes in cost components for future audits are:

Reasons for increased or decreased audit fees compared to previous period budgeted fees.	2016	2017	2018
Predicted increase in our costs.	4,000	2,000	2,000
Changes to local government reporting obligations (LGA etc)	3,500		
Impact of changes to group structure on the group consolidation.	500		
We have changed the hours and mix to better reflect the work we need to do on an on-going basis.	0		
Total increase in audit fees	8,000	2,000	2,000

7 Assumptions relating to our audit fee

Our proposed audit fees are based on the following assumptions:

- You will provide to us in a timely manner the complete information required by us to conduct the audit.
- Your staff will provide us with an appropriate level of assistance.
- Your organisation's annual report and financial statements (including Statements of Service Performance) will be subject to appropriate levels of quality review before being submitted to us for audit.
- Your organisation's financial statements will include all relevant disclosures.
- We will review up to two sets of draft annual reports, one printer's proof copy of the annual report, and one copy of the electronic version of the annual report (for publication on your website).
- There are no significant changes to the structure and/or scale of operations of the entities covered by this proposal.

- There are no significant changes to mandatory accounting standards or the financial reporting framework that require additional work.
- There are no significant changes to mandatory auditing standards that require additional work other than items specifically identified in the tables above.
- There are no significant changes to the agreed audit arrangements (set out in an annual letter we will send you) that change the scope of, or disbursements related to, this audit.

If the scope and/or amount of work changes significantly, we will discuss the issues with you and the OAG at the time.

8 What the OAG overhead charge provides

Parliament has indicated that it expects the full cost of annual audits under the Public Audit Act (including an OAG overhead charge) to be funded by public entities.

The OAG overhead charge partially funds a range of work that supports auditors and entities, including:

- development and maintenance of auditing standards;
- technical support for auditors on specific accounting and auditing issues;
- ongoing auditor training on specific public sector issues;
- preparation of sector briefs to ensure a consistent approach to annual audits;
- development and maintenance of strategic audit plans; and
- carrying out quality assurance reviews of all auditors, and their audits and staff on a regular (generally, three-year) cycle.

Appointed Auditors are required to return the OAG overhead charge portion of the audit fee, to the OAG.

9 Certifications required by the Auditor-General

We certify that:

- the undertakings, methodology, and quality control procedures that we have declared to the OAG continue to apply;
- our professional indemnity insurance policy covers this engagement; and
- the audit will be conducted in accordance with the terms and conditions of engagement set out in the audit engagement agreement and schedules.

10 Conclusion

As the Appointed Auditor, I am committed to providing you and the Auditor-General with the highest level of professional service. I intend to work with you, the OAG, and the Auditor-General in a partnership environment to resolve any issues that may arise.

If you require any further information, please do not hesitate to contact me.

Please counter-sign this letter (below) to confirm that you, and the governing body of your organisation, agree with its contents. This letter will then form the basis for a recommendation to the Auditor-General on the audit fee that should be set. The schedules of audit hours and fees will also be incorporated into my audit engagement agreement with the Auditor-General to carry out the audit of your organisation as the agent of the Auditor-General.

Yours sincerely

Bede Kearney
Director
Audit New Zealand

I accept the audit fees for the audit of the three financial years as stated above.

Full name: Bruce Smith Position: Mayor
Authorised signature: _____ Date: _____
Entity name: Westland District Council

Actions to take when agreement has been reached:

- 1 Make a copy of this signed proposal and keep it for your file.
- 2 Send the original to: Bede Kearney
Audit New Zealand
PO Box 2
Christchurch

Report



DATE: 22 June 2017

TO: Mayor and Councillors

FROM: Group Manager: Corporate Services

RATES WRITE OFFS AND REMISSIONS 2016-17

1 SUMMARY

- 1.1 The purpose of this report is to request Council approval to write off rates debts deemed uncollectable, and to apply remissions, for the financial year ended 30 June 2017.
- 1.2 This issue arises because Council has not delegated the authority to staff to write off rates receivables.
- 1.3 Council seeks to meet its obligations under the Local Government Act 2002 and the achievement of the District Vision adopted by the Council in September 2014, which will be set out in the next Long Term Plan 2015-25. These are stated on Page 2 of this agenda.
- 1.4 This report concludes by recommending that Council approves the write off, adjustment and remission of rates receivables and penalties totalling \$318,899 including GST [\$296,707 ex GST] for the financial year ending 30 June 2017.

2 BACKGROUND

- 2.1 Remissions are applied in accordance with Council's Rates Remissions Policy.
- 2.2 Write offs are a last resort after Council exhausts all reasonable avenues to collect outstanding rates receivables. There are two circumstances which compromise Council's ability to recover overdue amounts:
 - 2.2.1 Section 65 of the Local Government (Rating) Act 2002 precludes the commencement of any court action to recover unpaid rates that are more than six years past due.

2.2.2 Part 4 of the Act provides that Rates are not collectable on unoccupied Maori Land, unless it can be proven that income is derived from that land. To that extent, Maori Land that is vested in trustees is liable for rates only to the extent of any money derived from the land, and that Rates on multi ownership unoccupied Maori Land are the liability of each owner only to the extent of their own interest in the land. These provisions render the rates on unoccupied Maori Land uncollectable.

3 CURRENT SITUATION

3.1 Analyses of these adjustments are shown in the tables below:

3.1.1 Adjustments by reason:

Reason	16/17	15/16	Difference
Agreement	25,939	16,713	9,226
Correction	49,161	35,534	13,627
Half Rateable	14,576	22,023	- 7,447
Uniform charges	23,945		23,945
Non Rateable	7,075	11,369	- 4,294
Paid Full Year	1,441	5,481	- 4,040
Payment Plan	112,529	209,160	- 96,631
Pre 7 Years	23,228	9,652	13,576
Subdivision	33,777	49,520	- 15,743
Unoccupied Maori Land	27,229	28,206	- 977
Grand Total	318,899	387,658	- 68,759

3.1.2 Adjustment by type:

Action	Type	Reason	Inc GST	Ex GST
Remission	Penalties	Correction	-	none
		Payment Plan	95,424	95,424
	Rates	Half Rateable	14,576	12,675
		Uniform charges	23,945	20,821
		Non Rateable	7,075	6,152
		Subdivision	33,777	29,371
Remission Total			174,796	164,443
Write Off	Arrears	Agreement	-	-
		Paid Full Year	-	-
		Pre 7 Years	23,228	20,199
		Unoccupied Maori Land	27,229	23,678
	Penalties	Correction	34,789	34,789
		Paid Full Year	1,441	1,441
		Payment Plan	17,105	17,105
	Rates	Agreement	25,939	22,555
		Correction	14,372	12,497
	Write Off Total			144,103
Grand Total			318,899	296,707

- 3.2 The total has decreased compared to 2015/16, due to Council becoming more aggressive in attempting to collect aged receivables, and more systematic in correcting discrepancies in its rating information database.
- 3.3 The relevant section of the remissions policy applied are in respect of properties that are:
- 3.3.1 wholly or partially non-rateable pursuant to Schedule 1 of the Local Government (Rating) Act 2002, or
 - 3.3.2 subdivisions eligible for temporary relief from multiple fixed charges.
- 3.4 The budget for rates write offs for 2016/17 is \$82,357 excluding GST. The write offs in table 3.1.2 amount to \$132,264. The increase is mainly due to continued review and updating of the rating information database resulting in the correction of errors found, and exceptional items (\$47,286). Therefore, the underlying amount is \$2,621 above budget.
- 3.5 The rating units that qualify for remissions at the start of the year are identified during the preceding year and the amount to be remitted is allowed for when the rates are struck via a redistribution in the rating information database.

4 OPTIONS

- 4.1 The following options are available:
- 4.1.1 **Option 1:** Approve the write offs and remissions amounting to \$318,899 including GST.
 - 4.1.2 **Option 2:** Do not approve the write offs and remissions
 - 4.1.3 **Option 3:** Approve one or either, or a proportion of those proposed.

5 SIGNIFICANCE AND ENGAGEMENT

- 5.1 The decision is administrative and in accordance with Council's Policy on Significance and Engagement is assessed as low significance.
- 5.2 Consultation is not required on this matter.

6 ASSESSMENT OF OPTIONS (INCLUDING FINANCIAL IMPLICATIONS)

- 6.1 Option 1 would generate a variance of \$49,907 against the budget for 2016/17. This option is consistent with Council's rates remissions policy and is prudent in respect of the write offs, since under IFRS, assets must be stated at their net realisable value.

- 6.2 Option 2 would breach Council's rates remissions policy. Were the write offs not applied it is certain that they would require provision, which would have the same financial impact as Option 1.
- 6.3 Option 3 could breach Council's rates remissions policy and would still require partial provision, which is illogical. As stated in 3.1 and 3.2, the amounts are proposed after exploring all options.

7 **PREFERRED OPTION AND REASONS**

- 7.1 Option 1 is the preferred option. It is consistent with Council policy and IFRS.

8 **RECOMMENDATIONS**

- A) **THAT** Council approves the total proposed rates write offs and remission of \$318,899 including GST for the financial year ending 30 June 2017.

Lesley Crichton
Group Manager: Corporate Services

Report



DATE: 22 June 2017

TO: Mayor and Councillors

FROM: Group Manager: Corporate Services

DEPARTURE FROM INVESTMENT POLICY

1 SUMMARY

- 1.1 The purpose of this report is to seek Council's approval and acknowledgement of existing and continuing financial circumstances that contravene its stated policy objectives.
- 1.2 This issue arises from a requirement for Council to exercise prudent financial governance within the parameters of its adopted policies.
- 1.3 Council seeks to meet its obligations under the Local Government Act 2002 and the achievement of the District Vision adopted by the Council in September 2014, which is set out in the Long Term Plan 2015-25. These are stated on Page 2 of this agenda.
- 1.4 This report concludes by recommending that Council:
 - 1.4.1 approves the retention to maturity October 2017, of a bond held with Rabobank whose credit rating is below that stipulated in its Investment Policy, and
 - 1.4.2 acknowledges that, as at 30 June 2017, Council will report the retention of the bond described in 1.4.1.

2 BACKGROUND

2.1 Council's current Investment Policy was adopted in 2015 and incorporated in the Long-Term Plan 2015-25.

2.2 The policy remains effective as at 30 June 2017 and prescribes the framework for the types of investments that Council will utilise and purpose to which they will be applied.

2.3 Investment Policy

2.3.1 The Prudential Limits and Guidelines contained in the Investment Policy stipulate that any bonds held by Council should be underwritten by entities with a minimum credit rating of A.

2.3.2 At 30 June 2015 at the time the policy was adopted, Council's portfolio included bonds with a credit rating of A- or BBB amounting to \$335,000.

2.3.3 By 30 June 2016 this total had decreased to \$325,000.

2.3.4 At 31 May 2017 one bond highlighted below, remains in the portfolio that is below the benchmark:

2.3.5

Westland District Council Investment Counterparty Credit Limits				
Minimum Credit Rating is A-1/A (A+ for corporates)				
Counterparty Credit Risk	Credit Rating	Policy Limits	Counterparty Exposure	Policy Compliance
		NZD\$m	NZD\$m	
ANZ	AA-	1.00	0.10	Y
ASB	AA-	1.00	0.00	Y
Auckland Council	AA	1.00	0.10	Y
BNZ	AA-	1.00	0.21	Y
Rabobank	BBB	1.00	0.25	N
Rabobank	A+	1.00	0.00	Y
Westpac	AA-	1.00	0.10	Y
TOTAL			0.77	

3 CURRENT SITUATION

3.1 Council's financial position is expected to continue to strengthen and the management of its investment requirements may consequently change.

3.2 The existing policies remain effective until this is completed.

3.3 Investment Policy

3.3.1 Council continues to hold one bond with Rabobank Capital Services [RCS] with a market value of \$145,125 (face value \$150,000).

3.3.2 The credit rating of this entity is BBB.

3.3.3 Although the coupon on the bond held with RCS is 2.88%, the market value is lower than its face value. Liquidating this asset would not generate sufficient funds to facilitate interest cost savings in excess of the interest revenue it earns.

3.3.4 Councils interest cost is 2.87%

4 OPTIONS

4.1 **Option 1** – approve the retention of the bond as recommended and acknowledge the departure from policy.

4.2 **Option 2** – dispose of the bond.

4.3 **Option 3** – do nothing

5 SIGNIFICANCE AND ENGAGEMENT

5.1 This matter is largely administrative and therefore of low significance.

5.2 The decision does not directly impact on the community and does not require consultation.

6 ASSESSMENT OF OPTIONS (INCLUDING FINANCIAL IMPLICATIONS)

- 6.1 Option 1 would enable Council to demonstrate prudent financial governance and secure beneficial interest income to October 2017.
- 6.2 Option 2 would imply that Council does not wish to retain the bond referred. Disposal of the higher coupon bond would result in a net increase of 0.02% in on-going interest costs until October 2017.
- 6.3 Option 3 would leave Council with an uncontrolled policy breach as at 30 June 2017.

7 PREFERRED OPTION AND REASONS

- 7.1 The preferred option is 1) – approve the retention of the bond as recommended and acknowledge the departure from policy. This would demonstrate that Council is conscious of its financial governance responsibilities and will secure the continuation of interest revenue in excess of its cost of borrowing

8 RECOMMENDATIONS

- A) **THAT** Council approves the retention to maturity of the bond held with Rabobank whose credit rating is below that stipulated in its Investment Policy, and
- B) **THAT** Council acknowledges that the Annual Report 2016-17 will disclose the retention of the bond described.

Lesley Crichton
Group Manager: Corporate Services