

Report to the Council on the audit of

Westland District Council

For the year ended 30 June 2019

Contents

Key messages	3
1 Recommendations	5
2 Our audit report	9
3 Matters raised in the audit plan	12
4 Other matters arising from the audit.....	19
5 Helping you to understand your risks: procurement and contract management.....	23
6 Public sector audit.....	31
7 Group audit	33
8 Useful publications.....	35
Appendix 1: Status of previous recommendations	39
Appendix 2: Disclosures	46

Key messages

We have completed the audit for Westland District Council (the Council) for the year ended 30 June 2019. This report sets out our findings from the audit and draws attention to areas where the Westland District Council and group is doing well and where we have made recommendations for improvement.

This report complements our Report to the Council on the interim audit dated 2 July 2019.

Audit opinion

We have issued an unmodified audit opinion dated 31 October 2019.

Matters identified during the audit

Property plant and equipment

The Council's roading, three waters and reserve improvement assets were revalued as at 30 June 2019. This was a significant exercise.

The valuations generally decreased, largely as a result of better underlying information, and the application of different assumptions, asset lives and unit rates to assets.

Noting that this report includes a number of areas where the valuation process and underlying assets information can continue to improve, we commended the Council for the improvements it has made since the assets were valued last time. We consider the valuations to be significantly better than the valuations performed in 2016.

Impact of the March 2019 flood

The significant March flooding event caused damage to the Council's roading assets and exposed the closed Fox River landfill, spreading refuse down the river and coastline. Recovery from the event cost around \$2 million. The response to the roading and landfill damage put pressure on the Council's financial and operational resources, and contributed to other project work not being completed as planned. The flood directly contributed to the Council's surplus and cash reserves being lower than planned and added to the usual year-end carry-forwards, which for 2019 are \$4.9 million, a considerable amount given the Council's size.

We reviewed the accounting for the flood. Initially all costs relating to the flooding events were treated as repairs and maintenance, but portions of three roads were completely destroyed by the flood. Consequently, the accounting for these was changed to be a disposal and the reinstatement of the roads capitalised.

We considered the accounting for the Fox River landfill. At balance date the Council's only remaining liability was to transport the collected rubbish to landfill. The cost for this was accrued. This was consistent with our understanding as the responsibility for the clean-up was taken over by the Department of Conservation.

Rates

We again note that aspects of Council's rating processes are not consistent with the requirements of the Local Government (Rating) Act 2002. The impacts of those inconsistencies are immaterial from an audit perspective, but given the onerous legislative requirements around rates setting we recommend that these areas be addressed.

Procurement and contract management

We have reviewed Council's procurement policies and practices and contract management disciplines at a high level, and comment on those in section 5. We had little to add to LGNZ's review of Council's procurement processes, but note that contract management disciplines are comparatively less well developed. This is an area where improvements can be made. Generally contract management is an area where most local authorities could make improvements. A lot of focus is placed on procurement, but less on the effective management of the contracts, ensuring Councils get the product/service at the contracted quality and price.

Group audit

The component auditor issued a modified audit opinion on 30 September 2019 for Westland Holdings Limited (WHL). An "except for" opinion was issued because of the uncertainty over the carrying value of airport related assets. This is the same issue as in 2018.

Significant audit effort was also put into assessing the going concern of Destination Westland Limited (DWL) which made a loss and had negative cash flows from operations. DWL was only accepted as a going concern due to Westland Holdings Limited's letter to the DWL directors committing to provide ongoing financial support if required. DWL's financial sustainability is an area of ongoing focus for its auditor, and me as auditor for the Council group.

Thank you

We would like to thank the Council, management and staff for the assistance provided throughout the audit. Furthermore, we commend all staff involved in the preparation of the annual report and supporting documentation in 2019.



Scott Tobin
Appointed Auditor
19 November 2019

1 Recommendations



Our recommendations for improvement and their priority are based on our assessment of how far short current practice is from a standard that is appropriate for the size, nature, and complexity of your business. We use the following priority ratings for our recommended improvements.

Explanation	Priority
Needs to be addressed <i>urgently</i> These recommendations relate to a significant deficiency that exposes the Council to significant risk or for any other reason need to be addressed without delay.	Urgent
Address at the earliest reasonable opportunity, <i>generally within six months</i> These recommendations relate to deficiencies that need to be addressed to meet expected standards of best practice. These include any control weakness that could undermine the system of internal control.	Necessary
Address, <i>generally within six to 12 months</i> These recommendations relate to areas where the Council is falling short of best practice. In our view it is beneficial for management to address these, provided the benefits outweigh the costs.	Beneficial

1.1 New recommendations

The following table summarises our recommendations and their priority.

Recommendation	Reference	Priority
Asset information and valuations Valuation process and underlying assets information improve in the following areas: <ul style="list-style-type: none"> • Internal review processes. • The retention/creation of supporting information for unit rates, asset lives and changes to other assumptions. • Continued improvement of asset data. • Updating replacement cost unit rates in future valuations subject to indexing in 2019. • Reviewing road surfacing base lifecycles based on condition-based renewals. 	3	Necessary

Recommendation	Reference	Priority
<ul style="list-style-type: none"> Reviewing the engineering margin at 5-8% which is generally at the low end of ranges we have seen elsewhere. 		
Statement of Service Performance <ul style="list-style-type: none"> Ensure systems are implemented to enable Council to report on measures set within the long-term and annual plans. Complete the residents survey in 2020 as planned. 	3	Necessary
Rates <ul style="list-style-type: none"> Ensure rates and per factor amounts are consistent. Council collect the per factor amounts included in the resolution. Address the other issues noted in the 2021 rates setting and invoicing processes. 	3	Necessary
NZTA revenue system and controls Improve the NZTA revenue system and implement controls.	4.1	Necessary
Infrastructure asset disposals <ul style="list-style-type: none"> Ensure that disposals are identified by the District Assets team and the Finance team notified for removal from the fixed asset register. Ensure the asset revaluation reserve related to disposed assets is identified and transferred to retained earnings. 	4.2	Necessary
Monitoring asset revaluation reserves Determine the asset revaluation reserve attributable to each revalued class of assets.	4.3	Necessary
Expenditure approval limits <ul style="list-style-type: none"> Ensure the Delegations Manual is kept up to date. Ensure changes to purchase order approval limits within MagiQ are supported by formal written documentation. 	4.4	Necessary
Liability Management Policy compliance Ensure the interest rate risk control limits are adhered to or consider altering the rates.	4.5	Beneficial
Risk register <ul style="list-style-type: none"> Include a risk after controls column to show the residual risk; 	4.6	Beneficial

Recommendation	Reference	Priority
<ul style="list-style-type: none"> identify the top 10 risks and review those monthly rather than the whole register and only review the whole register annually or six monthly; and include some graphical representation of the top 10 risks and track movements in those as part of monitoring. 		
<p>Procurement and contract management</p> <p>Council consider the suggested areas for improvement in procurement and contract management practices in section 5, develop a plan to, and implement, those recommendations where the benefit exceeds the cost. Recommendations include:</p> <ul style="list-style-type: none"> Updated procurement policy, strategy and other plans eg training. Performing independent periodic reviews of procurement processes and decisions. Ensuring there good, up-to-date policy, guidance and procedures in place to support contract management. Ensuring there is a fit-for-purpose contract management or supplier relationship management system Regularly reviewing the approach to contract management (whether through internal audit or otherwise). 	5	Beneficial
<p>Reimbursement of the Mayor's expenditure</p> <p>Raise the issue of the Mayor's expenditure reimbursement with the Remuneration Authority to determine how it should be resolved.</p>	6.1	Necessary
<p>Sensitive expenditure approval</p> <ul style="list-style-type: none"> Ensure expenditure incurred by the Chief Executive is reviewed by the Mayor or Chair of the Finance, Audit and Risk Committee. Ensure expenditure incurred by the Mayor is approved by the Deputy Mayor or Chair of the Finance, Audit and Risk Committee. 	6.2	Necessary

1.2 Status of previous recommendations

Set out below is a summary of the action taken against previous recommendations. Appendix 1 sets out the status of previous recommendations in detail.

Priority	Priority			
	Urgent	Necessary	Beneficial	Total
Open recommendations	0	11	0	11
Implemented or closed recommendations	0	4	2	6
Total	0	15	2	17

2 Our audit report

2.1 We issued an unmodified audit report



We issued an unmodified audit report on 31 October 2019. This means we were satisfied that the financial statements and statement of service performance present fairly the Westland District Council and Group's activity for the year and its financial position at the end of the year.

In forming our audit opinion, we considered matters identified in sections 3 to 7 of this report.

2.2 Uncorrected misstatements

The financial statements are free from material misstatements, including omissions. During the audit, we have discussed with management any misstatements that we found, other than those which were clearly trivial. The misstatements that have not been corrected are listed below, along with management's reasons for not adjusting these misstatements. We are satisfied that these misstatements are individually and collectively immaterial.

Reference	Assets \$000	Liabilities \$000	Equity \$000	Financial performance \$000
	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
Parent				
1	(160)	160		
2	(60)	60		
Total	(220)	220		
Group				
3		567 (567)		
Total		0		

Explanation of uncorrected misstatements

- 1 Amounts included in accounts payable are also included in prepayments when they have not been paid. This overstates accounts payable and prepayments.
- 2 GST has been included in accounts payable accruals, overstating the accrual and GST receivable.

- 3 The Westroads Limited wages accrual has been classified as trade and other payables. This is a payroll liability that should be disclosed as employee entitlements.

Items 1, 2 and 3 are collectively or individually immaterial and represent the overstatement of current assets and current liabilities, or classifications within current liabilities only. For this reason, the Council decided not to correct these misstatements.

2.3 Corrected misstatements

We also identified misstatements that were corrected by management. The significant corrected misstatements are listed below.

Current year corrected misstatements	Reference	Assets \$000	Liabilities \$000	Equity \$000	Financial performance \$000
		Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
Asset revaluation reserve	1			3,142	
Property, plant and equipment		(3,142)			
Expenditure	2				563 (878)
Property, plant and equipment		(563) 878			
Revenue	3				165
Accrued revenue		(165)			

Explanation of corrected misstatements

- To remove drainage assets that have been duplicated in the valuation.
- To removing the roading assets washed away (\$563,000) and capitalising the construction of new assets (\$878,000) as a result of the March storm event. Originally all of the work was treated as repairs and expensed.
- To remove accrued grant from 2018/19 and recognise it in 2019/20 instead. As at 30 June 2019 the receipt of the grant was not probable.

2.4 Quality and timeliness of information provided for audit



Management needs to provide information for audit relating to the annual report of the Council. This includes the draft annual report with supporting working papers. We provided a listing of information we required to management on 11 June 2019. This included the dates we required the information to be provided to us.

We received a draft annual report on 20 September 2019, with our on-site visit commencing on 30 September 2019. Quality of the report, and supporting documentation, received was significantly improved compared to last year. The efforts of Council staff were apparent and appreciated.

The revaluation of all infrastructure classes and subsequent audit of those valuations was a significant undertaking. This was made much more difficult by not having the detailed spreadsheet underpinning the 2016 valuations. We particularly thank the Transport Manager and Financial Reporting and Budgeting Accountant for working so constructively with us as we completed the required valuation work.

3 Matters raised in the audit plan



We advised the Council of the main risks and issued in the audit plan dated 20 May 2019. In the following table, we set out the outcome of our audit response to those risks and issues.

Risk/issue	Outcome
Infrastructure asset valuations	
<p>The Council periodically revalues specific classes of its property, plant and equipment. PBE IPSAS 17, Property, Plant and Equipment, requires that valuations are carried out with sufficient regularity to ensure that the carrying amounts do not materially differ from fair value.</p> <p>We understand that the Council will be revaluing their infrastructure assets in the 2019 financial year. The quality of the underlying asset information is a crucial part of these valuations, particularly given the 2018-28 LTP qualified audit opinion arising from the absence of reliable information on three-water infrastructure to forecast renewals expenditure.</p> <p>The risk is that the valuations do not appropriately reflect the depreciated replacement cost of the assets, through such factors as the adoption of inappropriate remaining lives and/or replacement costs, and incorrect asset quantities. As well as resulting in an inappropriate valuation, any over or understatement of the valuations directly impacts depreciation and Council's rating requirements.</p> <p>The Council will need to complete its own quality assurance review of any valuations performed by external consultants.</p>	<p>The Council engaged Beca to value roading and bridge assets, and completed the water, wastewater, stormwater and reserve improvements in-house, with Beca peer reviewing them.</p> <p>The valuations generally decreased, largely as a result of better underlying information, the application of different assumptions and unit rates to assets. We consider the valuations to be significantly improved compared to the ones performed in 2016.</p> <p>We worked closely with the Transportation Manager and finance team, and made various enquiries of Beca, in completing our audit work.</p> <p>Overall, the audit and preparation process was made more difficult due to the Council not retaining the detailed underlying spreadsheets supporting the 2016 valuations, and the previous external valuer not providing these to Council when requested. The Council now has the detailed records for the 2019 valuation, and needs to retain these to support the aggregated information in the fixed asset register.</p> <p>There are a number of areas where the valuation process and underlying assets information can continue to improve:</p> <ul style="list-style-type: none"> • Internal review processes – Council completed various reviews which improved the quality of the valuations before we audited them. The reviews did not detect \$3.5 million of bridges and culverts also included in drainage assets. • The retention/creation of supporting information for unit rates, asset lives and changes to other assumptions. This includes retention of a version of RAMM

	<p>and Assetfinda before changes are made to assumptions, so that changes can be tracked.</p> <ul style="list-style-type: none"> Continued improvement of asset data – such as construction and installation dates for new and replaced assets. Updating replacement cost unit rates in future valuations subject to indexing in 2019. Reviewing road surfacing base lifecycles based on condition-based renewals. Reviewing the engineering margin at 5-8% which is generally at the low end of ranges we have seen elsewhere. <p>Recommendation</p> <p>The Council improve or consider the above areas (as applicable) for future roading and 3 waters valuations.</p> <p>Management comment</p> <p><i>Comments noted. There were a number of incorrect assumptions made for the roading valuation relative to the bridge assets. This data within the RAMM system will be corrected and any unit rates for Bridges will be removed between now and the next valuation run. Changes in Assetfinda can already be tracked but the process for RAMM is a little more involved. This will be looked into more closely. Working with Buller and Grey DC's over sharing of unit rates and base life data has proved to be beneficial and we intend to continue this collaboration in future as a way of improving Coast wide network assumptions and data. We will continue to work with Beca over RAMM data improvements and life cycle data. Review of Engineering margins will also be undertaken to set an appropriate level.</i></p>
Fair value and impairment assessments	
<p>Land and buildings were last revalued at 30 June 2018. A fair value assessment will be required by the Council to determine whether the carrying value at 30 June 2019 continues to represent fair value.</p>	<p>We reviewed management's fair value assessment of its land and buildings assets. The conclusions from this assessment aligned with our audit work and understanding of the assets.</p>

<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. We expect the District Council to have completed an impairment assessment to determine whether any assets will need to be impaired. This includes an assessment of the museum building.</p>	<p>We concluded that the fair values were not materially different to the carrying value of the assets as at 30 June 2019.</p>
<p>Recent flooding events</p>	
<p>The Westland District was hit by extreme weather in late March 2019. This caused significant damage across the region and has led to an extensive clean-up being required.</p> <p>The floods resulted in around \$2 million of damage to roading assets and a significant spend to clean up refuse spread by floodwater from a closed landfill. We understand the Council will be receiving some grant funding to contribute towards the costs incurred.</p> <p>From an annual reporting perspective, there are various risks that arise from the event including the correct accounting for any costs incurred to clean-up after the event, and to repair damaged assets, whether an impairment needs to be recognised for assets still damaged at balance date, and the appropriate accounting for any funding received from the Crown or other agencies.</p>	<p>The significant flooding event caused damage to Council's roading assets and exposed the closed Fox River landfill, spreading refuse down the river and coastline.</p> <p>The response to both put pressure on Council financial and operational resources, and contributed to other planned project work not being completed as planned contributing to year end carry-forward of around \$4.9 million – a considerable amount given Council's size.</p> <p>We reviewed the accounting for the flood. Initially all costs relating to the flooding events were treated as repairs and maintenance, but portions of three roads were completely destroyed by the flood. Consequently, the accounting for these was changed to be a disposal and the reinstatement of the roads capitalised. In section 4.2 we raise a recommendation about identifying and accounting for disposals.</p> <p>We considered the accounting for the Fox River Landfill. At balance date Westland's only remaining liability was to transport the collected rubbish to landfill. The cost for this was accrued. This was consistent with our understanding as the responsibility for the clean-up was taken over by the Department of Conservation.</p>
<p>Statement of Service Performance</p>	
<p>The Council's statement of service performance is the primary means of reporting to ratepayers its performance for the year. Council is continuing to improve its systems for capturing the underlying data for this reporting.</p>	<p>We reviewed the Council's systems and controls for reporting its service performance information, and confirmed the reported performance is materially accurate and complete and reflects the performance of Council.</p>

<p>We have identified a number of improvements to the systems to capture and report performance information in the past. In the 2018 report to governors we identified a need to further improve the systems for recording customer complaints/services requests to ensure all requests are recorded and recorded accurately, and for dry weather sewerage overflows.</p>	<p>We have followed up on the progress of our prior years' recommendations relating to the Statement of Service Performance. Please refer to Appendix 1 for further details.</p> <p>During our review in 2019 we noted a number of DIA's mandatory performance measures could not be reported on. This included measures relating to footpaths, maintenance of the reticulation network (water supply), demand management (water supply), water supply response times (attendance times), dry weather overflows (Council reports all overflows), and response times relating to storm water and wastewater.</p> <p>The Council also did not perform the two yearly annual survey in 2019, carrying forward the results from 2018 when the survey was performed. Combined with the point above, this meant a large number of measures were not reported for 2019.</p> <p>Recommendations</p> <ul style="list-style-type: none"> • Ensure systems are implemented to enable Council to report on measures set within the long-term and annual plans. • Complete the residents survey in 2020 as planned.
<p>Rates</p>	
<p>Rates are the Council's primary funding source.</p> <p>Compliance with the Local Government (Rating) Act 2002 (LGRA) with rates setting and collection requirements is critical to ensure that rates are validly set and not at risk of challenge. At an extreme, errors in rates setting processes can mean rates cannot be legally collected.</p> <p>The Council should have appropriate processes in place to ensure rates setting is legally compliant.</p> <p>Where issues or concerns arise, it should seek legal advice, to ensure compliance with legislation for its rates and rating processes. In 2018 we noted a rating assessment</p>	<p>The Council's rates resolution and rates funding impact statement (FIS) show the total revenue sought from each rate and the per factor amount that a ratepayer will be charged (e.g. fixed amount or cents in the dollar). The rates factors in the resolution do not factor in all RID movements to the point of the resolution. This is not unusual as rates are set based on RID information as at 30 June and there is a lag of information into the RID related to 30 June and also the resolution is passed before 30 June.</p> <p>After approval of the rates resolution and FIS, Council updates the rating information database to 30 June. The Council then recalculates the per factor rates so that the total amount of revenue collected from each rate matches the revenue requirement in the rates resolution and FIS.</p>

<p>compliance issue that Council sought legal advice on.</p>	<p>Typically this results in the rates per factor being slightly lower than the amount resolved.</p> <p>This recalculated per factor rate is the amount included in the assessment and invoiced to ratepayers. The Council's practice means that it only receives the total rates it expects.</p> <p>However, our view is that the rates and per factor amounts in the resolution should be consistent, and legally the Council should collect the per factor amounts included in the resolution.</p> <p>During the 2018/19 audit, we again noted that ratepayers have been invoiced at per factor rates different to those in the approved rates resolution and FIS.</p> <p>For 2018/19 the Council cumulatively collected \$3,800 more for some rates and \$30,250 less for other, giving an over net under-collection of \$26,450 compared to the per unit rates/factions included in the resolution.</p> <p>For 2019/20, the Council is expected to under-collect by \$26,254 and over-collect by \$8, with the latter being a rounding issue.</p> <p>Recommendations</p> <p>Ensure rates and per factor amounts are consistent.</p> <p>The Council collect the per factor amounts included in the resolution.</p> <p>Management comment</p> <p><i>Agreed, going forward Council will strike rates based on the factors that are adopted, even if this means we over collect the total expected rates.</i></p> <p>We identified some other rates setting and invoicing items below that should be addressed in the 2021 rates:</p> <ul style="list-style-type: none"> • The 2019/20 rates resolution includes 1 July 2015 as the date on which 10% penalties will be added to rates unpaid from the previous years. This should have been 1 July 2019. • The 2019/20 water rates include a reference to SUIP and rating unit. The rates are collected on a rating unit and
--------------------------------------------------------------	----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

	<p>not SUIP basis, so SUIP should not have been included.</p> <ul style="list-style-type: none"> The rates fractions in assessment notices are incorrect and are shown as the amounts per \$100 of LV/CV and not the amount per \$1 (i.e. missing two decimal points). <p>Recommendation</p> <ul style="list-style-type: none"> Address the above issues in the 2021 rates setting and invoicing processes. <p>Management comment</p> <p><i>Noted and will address.</i></p>
<p>Consolidation for Westland District Council group</p>	
<p>The Council's consolidated financial statements include financial information from its wholly owned subsidiary, Westland Holdings Limited (WHL).</p> <p>WHL applies the tier 2 for-profit accounting standards to prepare its financial statements. WHL must apply the new revenue, and financial instruments accounting standards in preparation of its 30 June 2019 financial statements. The new leasing standard applies for 30 June 2020 but can be adopted early.</p> <p>These new standards are complex and implementation is likely to be time consuming. Therefore, it is important that WHL works with their for-profit subsidiaries, particularly Westroads Limited, to substantially complete its transition work, on these new standards, well in advance of balance date.</p> <p>The Council will need to continue to assess the reporting implications that arise from accounting policy differences between the Council's group financial statements, prepared under Public Benefit Entity (PBE) accounting standards, and its for-profit entity subsidiary. Adjustments from changing to these new for-profit standards need to be assessed to determine whether they must be reversed in the Council's consolidated financial statements. We</p>	<p>We obtained assurance from our WHL audit that its financial information was materially correct for group reporting purposes.</p> <p>We reviewed and confirmed the completeness and accuracy of adjustments required to consolidate the WHL group into Council group's financial statements.</p> <p>There were no substantive adjustments required at a Council group level from the new for-profit accounting standards adopted by the WHL group.</p> <p>We note that WHL continues to hold land and buildings at cost and not fair value which is the group policy. This is covered in Appendix 1. We also include further comment on significant group matters in section 7.</p>

encourage WHL and the Council to address these consolidation issues prior to balance date.	
Procurement	
<p>The theme for OAG's 2018/19 work programme is procurement. In March 2019 the OAG released their findings from the inquiry around the procurement processes for the Franz Josef stop bank.</p> <p>Following the release of the report, the Minister of Local Government requested further information on Council's procurement processes. The Council is working with LGNZ to respond to this request.</p>	<p>The Council has responded to the Minister in relation to the procurement letter received. The procurement review completed by LGNZ highlighted a number of strengths in Council's processes and also a number of areas to continue to focus on.</p> <p>We have also reviewed Council's procurement policies and practices, and contract management disciplines at a high level, and comment on those in section 5.</p>
The risk of management override of internal controls	
<p>There is an inherent risk in every organisation of fraud resulting from management override of internal controls. Management are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Auditing standards require us to treat this as a risk on every audit.</p>	<p>To address this risk, we:</p> <ul style="list-style-type: none"> • tested the appropriateness of selected journal entries; • reviewed accounting estimates for indications of bias; and • evaluated the significant unusual or one-off transactions, including those with related parties. <p>We have no matters to raise based on the work we completed during the audit.</p>

4 Other matters arising from the audit



The following section outlines our observations and matters that were identified during our audit.

4.1 NZTA revenue system and controls

Findings

From our review of the NZTA revenue system we noted that there are no proper controls in place. The Council spreadsheet, which is used to maintain claim records, does not always agree to the NZTA claims.

During our final audit, we worked with the finance team to reconcile amounts in the general ledger to those claimed. There were numerous unexplained variances. This suggests that Council is likely over-claiming and under-claiming in different areas. Our findings support the recent audit report recommendations from the NZTA, in particular, that Council should implement a robust reconciliation processes.

Recommendation

Improve the NZTA revenue system and implement controls.

Management comment

In process to improve our reconciliation and claiming against NZTA. We are continuing to work with Finance to improve this.

4.2 Infrastructure asset disposals

Findings

The Finance team are not advised when infrastructure assets are disposed of. As a result, there are routinely no infrastructure asset disposals recorded in the fixed asset register or financial statements.

We note that assets are removed via the revaluation process, however, this is not the correct approach. If the assets being disposed of still have a net book value greater than \$0, this will have an impact on the operating surplus/deficit in the Statement of Comprehensive Revenue and Expense. Currently, the impact is only being recorded in Other Comprehensive Revenue and Expense and the asset revaluation reserve.

Recommendations

- Ensure that disposals are identified by the District Assets team and the Finance team notified for removal from the fixed asset register.
- Ensure the asset revaluation reserve related to disposed assets is identified and transferred to retained earnings.

Management comment

Finance fully agree with the findings and recommendations. An asset disposal form is available for use by managers to inform Finance, however it is accepted that this process has not been routinely followed.

GMCS to continue to work with GMDA on a process.

DA agree there are some areas for improvement. Review of the Fixed Asset Registers (FAR) would be beneficial to try and better align FAR data with their "Points of truth"

4.3 Monitoring asset revaluation reserves

Findings

Roading, water and wastewater carrying values decreased as a result of the 30 June 2019 valuations. Any valuation decrease for a class of asset is offset against the revaluation reserve balance for that class. If there is no balance in the reserve the valuation decrease is expensed. Asset revaluation reserves must be tracked for each class of assets valued.

Council was unable to provide the balance in the reserve for each class of asset. We were able to indirectly determine that there must be sufficient reserves in each class.

Recommendation

Determine the asset revaluation reserve attributable to each revalued class of assets.

Management comment

Agreed.

4.4 Expenditure approval limits

Findings

We found the Delegations Manual had not been updated to reflect new staff and positional changes. We were also unable to obtain formal documentation to support the purchase order approval limits set up in MagiQ.

Recommendation

- Ensure the Delegations Manual is kept up to date.
- Ensure changes to purchase order approval limits within MagiQ are supported by formal written documentation.

Management comment

Management are looking at an automated process through our Human Resources system to send a workflow request through to the EA to update the delegations manual and then the MagiQ system.

4.5 Liability Management Policy compliance

Findings

Exposure to interest rate risk is managed and mitigated through the risk control limits in the Liability Management Policy. Specifically, minimum and maximum thresholds have been set for fixed borrowings.

As at 30 June 2019, Council's fixed portion was 51% which is below the minimum policy threshold of 55%. The Council was aware of and is monitoring this issue.

Recommendation

Ensure the interest rate risk control limits are adhered to or consider altering the rates in the current environment.

Management comment

This has been discussed with PwC, and at present they are comfortable with a departure from the limits due to the low interest rates. A report is being taken to Council to approve the departure until the 12 month debt forecast can be determined, at the present time this has been changing. Once this figure is locked down PwC will determine the best strategy going forward.

4.6 Risk register

Findings

During our audit we reviewed the risk register and obtained an understanding of how it was used and updated. We suggest the following possible improvements.

Recommendation

- include a risk after controls column to show the residual risk;

- identify the top 10 risks and review those monthly rather than the whole register and only review the whole register annually or six monthly; and
- include some graphical representation of the top 10 risks and track movements in those as part of monitoring.

Management comment

Agreed.

The risk management software has been improved recently and will provide all the information that you are suggesting should be included.

Regarding timing, management will work with the newly formed Audit and Risk Committee and Independent Chair to determine what they would like to review and the timings of those reviews.

5 Helping you to understand your risks: procurement and contract management

Why it matters

Procurement and contract management carry high risk in terms of costs, public and political profiles, reputation, and performance. Delivering services well depends on doing procurement and contract management well.

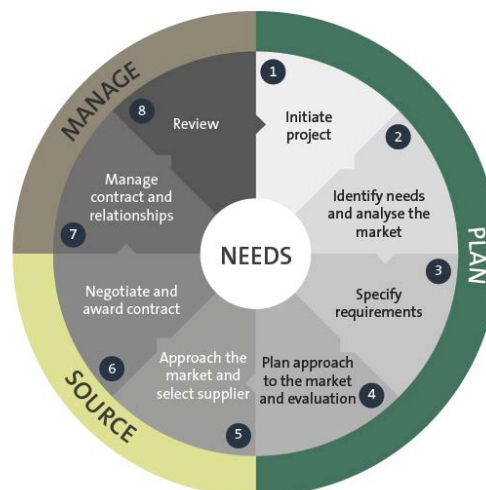
Understanding your risks

We have used our sector expertise, and recognised best practice, to develop a standardised risk assessment tool to analyse your local authority's procurement and contract management risks. We have included the sector context by displaying your position compared to other entities in the sector¹.

What do we mean by procurement and contract management?

Procurement is the overarching term used to describe all the business processes associated with purchasing goods and services. Procurement is much more than “buying something” – it includes all the processes involved in acquiring goods and services from a third party. Effective contract management helps ensure goods and services are delivered well, to specification, and in full. Both go together to ensure public value is realised.

Figure 2
The eight-stage life cycle of procurement



Source: (Recoloured from) the Ministry of Business, Innovation and Employment.

The Auditor-General's work programme – *Procurement*

The Office of the Auditor-General is part way through its work programme on Procurement. Earlier this year performance auditors visited 22 local authorities in the Waikato, Bay of Plenty, Canterbury, and Wellington Regions to talk about how local authorities in those regions carry out procurement. This audit identified some challenges that local authorities need to respond to so that procurement can continue to support the delivery of infrastructure and services to local areas. This will be particularly important with the significant growth that is forecast in many areas.

¹ This analysis is limited to local authorities audited by Audit New Zealand only.

The Office of the Auditor-General plans to publish its findings by the end of 2019. It will be important for each local authority to consider the Auditor-General's findings in order to determine priorities for further improving or developing the approach to procurement.

How do we assess risk?

Our assessment tool considers risk from two angles:

- The risk in the environment. This is the inherent risk. It is influenced by complexity, instability, change, delivery of critical services, interdependencies, and reliance on third parties. Size, strategic direction, and the nature of services are also important.
- The effectiveness of management systems and processes. This is control risk and covers the main aspects of good practice that we would expect to be applied. Effective management systems and processes mitigate aspects of inherent risk and reduce the risk of something going wrong.

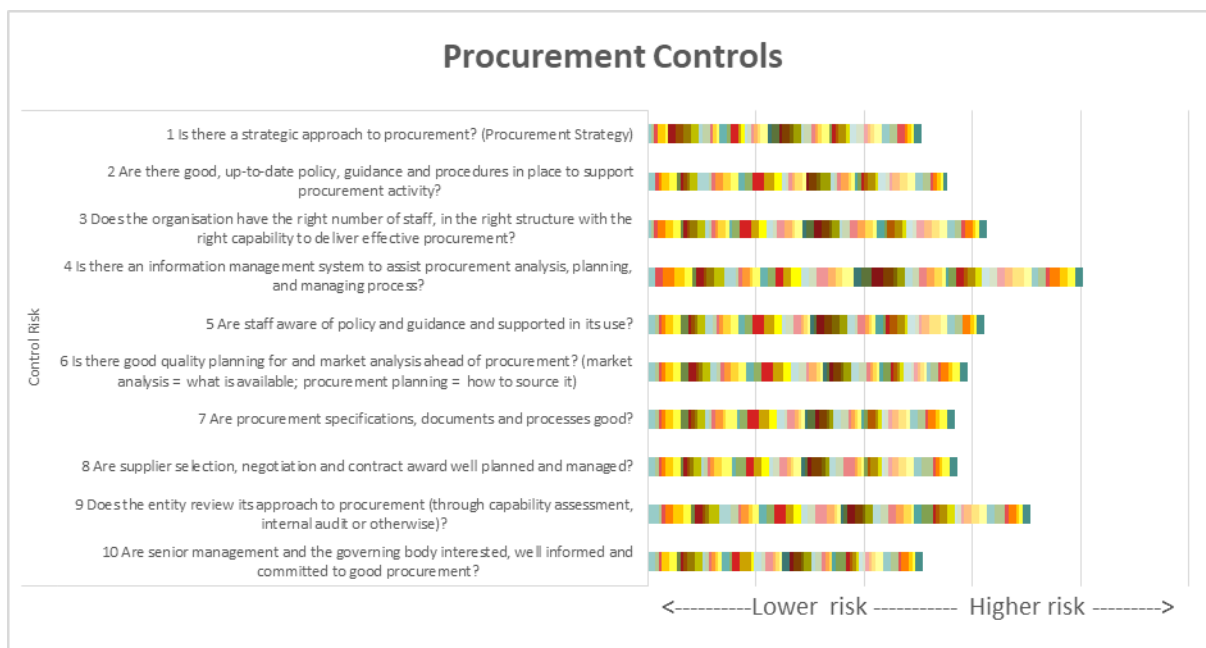
The risk assessment process we have undertaken is based on the design of the controls only. We have not performed testing to ensure the controls are operating effectively.

What are the assessments telling us?

Procurement is particularly important for local authorities, in which investment in developing, renewing and maintaining infrastructure is typically outsourced to private sector providers. In addition, many local authorities have entered into alliances, partnerships or other collaborative arrangements to support service delivery. With continued pressure on rates and other sources of funding, the need to achieve good value for money remains an important consideration. However, many local authorities have told us that they aim to use their spend to deliver other benefits, such as supporting the local economy.

Common areas of risk across local government

In the graph below we have summed the risk rating we assessed for each of ten procurement controls across all the local authorities we audit.



Two areas stand out across local government as priorities for improvement:

- Ensuring there is an appropriate information management system so that staff can analyse procurement spend, plan and manage procurement processes, and keep good records.
- Being open to continuous improvement through reviewing procurement practices and capability.

The graph below shows a similar analysis for contract management controls. Overall this indicates that contract management controls are weaker than those covering the purchasing stage of the procurement cycle. We encourage all local authorities to consider whether their approach to contract management is as clearly defined, well-resourced and implemented as it needs to be.

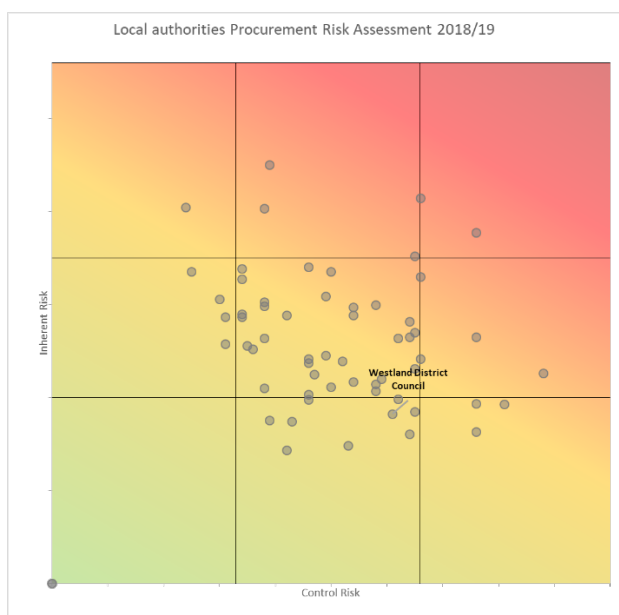


Three aspects of contract management might provide a focus for this consideration:

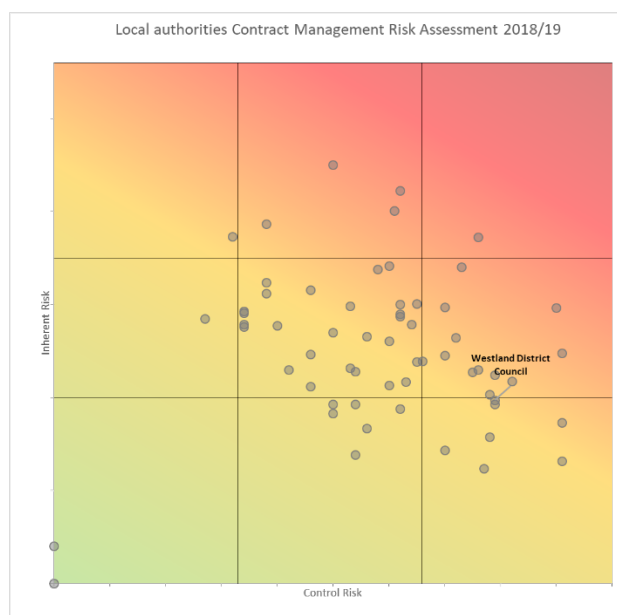
- assessing whether there is a strategic approach to supplier relationship management;
- making sure there are good, up to date policies, guidance and procedures in place to help staff manage contracts effectively; and
- ensuring there is an appropriate contract management system in place.

Each grey dot in the graphs below represents a local authority mapped according to our assessment of its inherent and control risk.

Procurement Risk levels



Contract Management Risk levels



Local authorities use a range of procurement approaches and have a significant number of contracts for a diverse range of goods and services. Levels of inherent risk vary widely depending on the size of local authorities, as well as the extent of and approach to outsourcing.

The Council has medium levels of inherent risk for both procurement and contract management.

There is little the council can do to reduce its level of inherent risk. However, it can strengthen its systems and processes to bring down the overall level of risk. In our view the controls for procurement and contract management are around the threshold between medium and high risk. In our view the council could strengthen its contract management systems and processes, to bring the overall level of risk down.

Our view on priorities for strengthening Westland District Council's control over procurement and contract management

We expect up to date policy, procedures and guidance to form a sound basis for controlling procurement and contract management. Policy needs to be regularly updated to make sure it continues to comply with the good practice promoted by the Government Procurement Rules. We note Council has continued to significantly improve its procurement controls with the adoption of a policy and a strategy, use of GETS and implementation of a tenders committee. Procurement was reviewed by LGNZ with several further areas for development identified.

In our view, the areas we believe would make the most difference to strengthening the Council's controls would be:

Procurement

- Updating practices and policies as detailed in the LGNZ procurement review p 38, in particular:
 - Ensuring all procurement reports for agendas are in a standard format, prepared by the appropriate manager and peer review by Executive Team before going to Council.
 - Updating the procurement policy and strategy.
 - Develop a policy on when procurement plans are required.
 - Develop (and implement) a formal training policy and plan.
- Completing periodic independent quality assurance reviews of significant procurement – from inception through to benefits realisation for the completed project.

Contract management

- Ensuring there good, up-to-date policy, guidance and procedures in place to support contract management. This might include:
 - Putting in place an organisation-wide policy, supported by good quality detailed guidance, procedures and templates, including standard/pro-forma contracts.
 - Applying the planned approach across all contracts (commercial, grants etc.
 - Being clear on when to use contract management plans, and how to assess delivery risks, perhaps with templates provided.

- Comprehensive guidance on what to do when contract performance obligations and expectations are not being met.
- Develop a policy on negotiating and approving contract variations with cross reference to delegations.
- Developing (and implement) a formal training policy and plan for contract management.
- Ensuring there is a fit-for-purpose contract management or supplier relationship management system, which might involve:
 - Putting in place a functional contract management system in place to capture key information on all contracts.
 - Making links to the FMIS/payment system to help staff manage contracts.
 - Storing documentation electronically in easily accessible ways (original agreement, record of contract progress claims and payments, monitoring and inspection or meeting records, relevant correspondence, records of any variations or claims, producer statements and/or guarantees, completion certificates).
 - Maintaining appropriate physical security and disaster recovery arrangements in place for contracts and associated information.
 - Allowing contract information to inform or be integrated with budget setting and monitoring.
 - Making links between performance information, payments and contract renewal decisions.
- Regularly reviewing the approach to contract management (whether through internal audit or otherwise). This might involve:
 - Putting a comprehensive programme of review in place.
 - Focussing internal audit reviews on contracting and outsourced delivery, informed by risk assessment.
 - Making sure that reviews are recent and relevant, with the conclusions/outcome good.
 - Good evidence of action in response to review findings/recommendations with progress being made.

Continuing focus on risk for 2019/20

As part of our 2019/20 audit we will again consider procurement-related risks during our audit planning, based on our knowledge of Council, your pattern of spend and the range of contracts you have in place.

6 Public sector audit



The Council is accountable to their local community and to the public for its use of public resources. Everyone who pays taxes or rates has a right to know that the money is being spent wisely and in the way the Council said it would be spent.

As such, public sector audits have a broader scope than private sector audits. As part of our audit, we have considered if the Council has fairly reflected the results of its activities in its financial statements and non-financial information.

We also consider if there is any indication of issues relevant to the audit with:

- compliance with its statutory obligations that are relevant to the annual report;
- the Council carrying out its activities effectively and efficiently;
- the Council incurring waste as a result of any act or failure to act by a public entity;
- any sign or appearance of a lack of probity as a result of any act or omission, either by the Council or by one or more of its members, office holders, or employees; and
- any sign or appearance of a lack of financial prudence as a result of any act or omission by a public entity or by one or more of its members, office holders, or employees.

From our review we noted two items relating to sensitive expenditure that Council needs to consider.

6.1 Reimbursement of the Mayor's expenditure

Findings

During our review of the Mayor's and Councillors' remuneration, we noted that the Mayor is being reimbursed for landline/broadband and mobile phone expenditure in excess of the limits defined in the Local Government Members (2018/19) (Local Authorities) Determination 2018.

The Determination permits payment of:

- \$400 p.a. for use of a personal internet service for council business;
- a \$150 p.a. allowance for use of a personal cell phone for council business; and
- \$400 p.a. for use of a personal mobile phone service for council business or reimbursement of the actual costs of phone calls made on council business.

The Mayor has instead been reimbursed for the full value of monthly landline/broadband and mobile phone invoices (excluding costs relating to his spouse) which include both personal and council related usage.

Recommendation

Raise the issue of the Mayor's expenditure reimbursement with the Remuneration Authority to determine how it should be resolved.

Management comment

Agreed.

6.2 Sensitive expenditure approval

Findings

We tested a sample of sensitive expenditure items and found a lack of one up approval in some cases.

Recommendation

- Ensure expenditure incurred by the Chief Executive is reviewed by the Mayor or Chair of the Finance, Audit and Risk Committee.
- Ensure expenditure incurred by the Mayor is approved by the Deputy Mayor or Chair of the Finance, Audit and Risk Committee, rather than the Chief Executive.

Management comment

Agreed, will review this process.

7 Group audit



The group comprises:

- Westland District Council.
- Westland Holdings Limited, including its two subsidiaries Westroads Limited and Destination Westland Limited.

We have not identified any of the following during our audit for the year ended 30 June 2019:

- Instances where our review of the work of component auditors gave rise to a concern about the quality of that auditor's work.
- Limitations on the group audit.
- Fraud or suspected fraud involving group management, component management, employees with significant roles in group-wide controls, or others where the fraud resulted in a material misstatement of the group financial statements.

7.1 Westland Holdings Limited (WHL)

7.1.1 Audit opinion

Similar to the prior year, the component auditor issued a modified audit report for WHL due to the scope of the audit being limited in respect of the carrying value of the WHL group's airport assets.

The basis for this qualification is as follows:

- Given the "for-profit" status of the WHL group, it needed to consider impairment for the cash generating airport assets when there are impairment indicators. There were impairment indicators this year in light of the poor financial performance of the airport.
- Despite the evidence that the airport related assets included in property, plant and equipment may be impaired, WHL did not determine the recoverable amount of the relevant assets in accordance with the relevant accounting standards. The component auditor was unable to determine whether the carrying value of these assets should be reduced and a corresponding impairment expense recognised. An "except for", limitation of scope opinion was issued on WHL's financial statements regarding the uncertainty over the appropriate carrying value of the airport assets.

At the group level, the impairment issue is not applicable for the Council as the assets are not held as cash generating and do not have to be assessed for impairment based on the associated future cash flows. Instead the airport assets are held for strategic purposes by

the Council to allow for better access to the district, not to make a profit. Therefore the carrying value of the assets in WHL's financial statements, which is cost, is appropriate for inclusion in the Council's group financial statements.

7.1.2 Destination Westland Limited (DWL)

DWL's financial results were poorer than expected. The company produced a net deficit before tax of \$200,000 and had negative cash flows from operations of \$28,000. The company's status as a going concern was only accepted based on WHL's letter to the DWL directors committing to provide ongoing financial support if required.

The financial viability of DWL continues to be a matter of significant audit focus for the audit of the group.

8 Useful publications



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

Description	Where to find it
Public accountability: A matter of trust and confidence	
<p>Public accountability is a cornerstone of our system of government. Knowledge on what the public is getting for their taxes and rates, how well that is being spent, and the integrity of the overall system are the basics of public accountability.</p> <p>This discussion paper is the first phase in a programme of work about the future of public accountability.</p> <p>The next phase of our research on public accountability will build on what we have learned here and focus on how well the current public accountability system is positioned to respond to the challenges and opportunities the public sector faces. This research will inform what the Auditor-General's Office does to improve trust and promote value in the public sector.</p>	<p>On OAG's website under 2019 publications.</p> <p>Link: public-accountability</p>
Post implementation reviews	
<p>The OAG have recently completed a review of Auckland Council's post implementation review process. While many aspects of the report are specific to Auckland Council, it documents the process that Auckland Council uses, and includes a post implementation review checklist.</p>	<p>On the OAG's website under publications.</p> <p>Link: Post-implementation review process</p>
Inquiry into Waikato District Health Board's procurement of services from HealthTap	
<p>Findings of the inquiry into the decision of Waikato District Health Board in 2015, to enter into a contract with the United States-based company HealthTap Inc to provide "virtual care" services through an online service.</p> <p>There are important lessons about a good procurement process that can be learned and applied to other procurements in the public</p>	<p>On OAG's website under 2019 publications.</p> <p>Link: inquiry-waikato-dhb</p>

Description	Where to find it
<p>sector – in particular, when seeking to be innovative.</p> <p>Innovation in the public sector is important. It can lead to new and better services for the public and more efficient ways to deliver current services. However, when public organisations seek to innovate, it is all the more important to respect the disciplines of good procurement. Innovative service delivery and good procurement practice are not mutually exclusive.</p>	
Client updates	
<p>In March 2019, we hosted a series of client updates. The theme was “Improving trust and confidence in the public sector”.</p> <p>These included speakers from both Audit New Zealand and external organisations.</p>	<p>On our website under publications and resources.</p> <p>Link: Client updates</p>
Model financial statements	
<p>Our model financial statements reflect best practice we have seen. They are a resource to assist in improving financial reporting. This includes:</p> <ul style="list-style-type: none"> • significant accounting policies are alongside the notes to which they relate; • simplifying accounting policy language; • enhancing estimates and judgement disclosures; and • including colour, contents pages and subheadings to assist the reader in navigating the financial statements. 	<p>On our website under publications and resources.</p> <p>Link: Model Financial Statements</p>
Tax matters	
<p>As the leading provider of audit services to the public sector, we have an extensive knowledge of sector tax issues. These documents provide guidance and information on selected tax matters.</p>	<p>On our website under publications and resources.</p> <p>Link: Tax Matters</p>
Client substantiation file	
<p>When you are fully prepared for an audit, it helps to minimise the disruption for your staff</p>	<p>On our website under publications and resources.</p>

Description	Where to find it
<p>and make sure that we can complete the audit efficiently and effectively.</p> <p>We have put together a tool box called the Client Substantiation File to help you prepare the information you will need to provide to us so we can complete the audit work that needs to be done. This is essentially a tool box to help you collate documentation that the auditor will ask for.</p>	<p>Link: Client Substantiation File</p>
Severance payments	
<p>Because severance payments are discretionary and sometimes large, they are likely to come under scrutiny. The Auditor-General has released updated good practice guidance on severance payments. The guide is intended to help public sector employers when considering making a severance payments to a departing employee. It encourages public organisations to take a principled and practical approach to these situations. The update to the 2012 good practice guidance reflects recent case law and changes in accounting standards.</p>	<p>On the OAG's website under 2019 publications.</p> <p>Link: Severance payments</p>
Good practice	
<p>The OAG's website has been updated to make it easier to find good practice guidance. This includes resources on:</p> <ul style="list-style-type: none"> • audit committees; • conflicts of interest; • discouraging fraud; • good governance; • service performance reporting; • procurement; • sensitive expenditure; and • severance payments. 	<p>On the OAG's website under good practice.</p> <p>Link: Good practice</p>
Reporting fraud	
<p>The OAG have released data from 2012-2018 on fraud in public entities. This includes how the fraud was detected, the type of fraud and the methods and reasons for the fraud. The graphs show the high-level sector, and this can be</p>	<p>On the OAG's website under data.</p> <p>Link: Reporting Fraud</p>

Description	Where to find it
broken down further into sub-sectors by opening the spreadsheets available.	

Appendix 1: Status of previous recommendations

Open recommendations

Recommendation	First raised	Status
Necessary		
Preparation for audit		
<ul style="list-style-type: none"> A complete substantiation file be produced to support the information in the Annual Report. Review year-end adjustments and the completeness and accuracy of accruals and changes to provisions. 	2017/18	<p>Substantiation information was available, although could be improved for in-house valuations with documentation and rationale for assumptions used retained.</p> <p>There remains opportunity to improve year end accrual processes. We noted a revenue accrual that did not relate to 2019. There was a similar issue in 2018. Also as noted in the adjusted misstatements (section 2.2) accruals were made including GST and prepayments were recognised for amounts not paid at year end.</p> <p>Management comment</p> <p><i>Noted and will review accruals and pre payments process.</i></p>
Service request system		
<ul style="list-style-type: none"> The Council continues to improve its asset information. Ensure the condition information is considered as part of the 2018/19 infrastructure valuations. Work to address the shortcoming in the current asset management practises, as identified through the LTP process. 	2017/18	<p>In progress</p> <p>Comments included in our interim reported dated 2 July 2019.</p>
Traffic counts		
As part of the new arrangements with Beca, the Council put in place an appropriate, formal traffic count	2017/18	For 2019 Council did not have a formal traffic count programme in place. We understand that Beca will undertake this in 2020.

Recommendation	First raised	Status
programme for calculating smooth travel exposure reporting.		
Asset and asset revaluation		
<ul style="list-style-type: none"> All assets within a class should be revalued to ensure compliance with accounting standards. This includes assets in subsidiaries. Consider aggregating and revising the existing asset classes for land and buildings. Management carry out regular reviews of the fixed assets register (FAR) to confirm the existence and ownership of assets. Management need to improve the in-house fair value assessment in 2019. Infrastructure assets be revalued in 2019. 	2017/18	<p>The Council revalued its roading, three waters infrastructure, and reserve improvement assets at 30 June 2019.</p> <p>All assets within these classes of assets were revalued and a fair value assessment for land and buildings was undertaken.</p> <p>A review is yet to be performed by management to ensure that asset records within RAMM and AssetFinda are complete. Similarly, aggregation the existing asset classes for land and buildings remains outstanding.</p> <p>Management comment</p> <p><i>RAMM data is currently under review and being updated by Beca as part of our AMP improvement plan process. Assetfinda Valuation has identified a number of areas for review/improvement that will also be undertaken between now and the next valuation. All alterations/changes will be tracked.</i></p>
NZTA claim process		
<ul style="list-style-type: none"> Improve the process for compiling NZTA subsidy claims to ensure they align to the GL. Introduce an independent, evidenced review of the claim before it is submitted. 	2017/18	<p>These improvements remain necessary. Refer section 4.1.</p> <p>Management comment</p> <p><i>Work is ongoing in this area.</i></p>
Information systems		
<p>Increase the maturity of the information systems management framework and supporting processes by:</p> <ul style="list-style-type: none"> Developing an information systems strategic plan. 	2017/18	<p>Progress has been made on a number of these items. We will follow up on the status of these at our interim audit visit in 2020.</p>

Recommendation	First raised	Status
<ul style="list-style-type: none"> Developing an information security policy. Documenting user account security criteria and improve password strength. Reviewing vendor support accounts and ensure access is required Improving change management processes – perhaps through the use of Spiceworks. Tracking and managing incidents – perhaps through the use of Spiceworks. Periodically testing back-ups. Updating the Disaster Recovery and IT Business Continuity Plans. 		<p>Management comment</p> <p><i>The IS strategic plan is currently being developed as part of the WC4-G group, which is the shared services model of IS services.</i></p> <p><i>As this is across four Councils so inevitably takes longer.</i></p> <p><i>A change management process is currently being developed.</i></p> <p><i>Spiceworks is currently already being used to track incidents and working well. There is a current project being considered under WC4-G for a shared IT helpdesk across all four councils which may supersede Spiceworks.</i></p> <p><i>DRP and BCP are KPI's for the IT team this financial year.</i></p>
Inconsistent group accounting policy		
That the Council ensures consistency in group accounting policies going forward.	2017/18	<p>WHL recorded land and building assets at cost again in 2018/19. We understand this is likely to change once Destination Westland Limited action recommendations relating to their airport related assets.</p> <p>Management comment</p> <p><i>This is disappointing as the Chair WHL wrote to DWL requesting that they follow group policy. Internal discussion will need to take place again to ensure all CCO's understand the requirements.</i></p>
Risk management		
<ul style="list-style-type: none"> Ensure continual review and update of the risk register and implementation of any mitigating actions identified. Ensure that the new risk management system, Quantate, is fully implemented to help better identify, evaluate, monitor and manage risk. 	2016/17	<p>Progress made. Training is still needed for risk managers before they can manage the risks in their areas.</p> <p>Management comment</p> <p><i>Risk managers have had training, however the GMDA has resigned, therefore training will be required once a replacement is found.</i></p>

Recommendation	First raised	Status
Renewals under expenditure		
Ensure that planned renewal expenditure is sufficient to avoid significant failure of assets in future years due to delayed maintenance not being carried out.	2017/18	<p>Renewals expenditure is an area of ongoing focus for both Council and management. We will follow up on progress during our 2020 audit.</p> <p>Management comment</p> <p><i>There is an ongoing process of condition data collection for the 3 waters assets and this is being utilised to help inform more robust renewals programs in future. Data gathering is an ongoing continual process that we need to ensure is adequately funded.</i></p>
Legislative compliance		
<p>Council develops and implements a sound legal compliance system for identifying and recording potential risks and assessing the likelihood of those risks across all activities of the organisation.</p> <p>Relying solely on the knowledge of staff exposes the organisation to risk, especially when staff change.</p>	2015/16	<p>The Council intends to use its new Electronic Document Management System (in development) to provide staff with notifications of when key legislative dates are coming up to ensure compliance. We are unclear how this will work in practice and will follow up on progress during our 2020 audit.</p> <p>Management comment</p> <p><i>This is a work in progress at the current time. Various methods are being considered, however management are comfortable that legislative compliance is being followed.</i></p>
Rates assessment and invoices		
Perform an annual review of the rates assessments and invoices to ensure that they are compliant with relevant legislation and include the correct ratepayer details.	2014/15	<p>Our review of the 2018/19 and 2019/20 rates assessment and invoices found that the rates assessment does not include the information on the factors used to calculate the amount of liability of a rating unit in respect of each targeted rate (such as capital value, fixed dollar charge, etc.) as required</p>

Recommendation	First raised	Status
		<p>by S45(1)(i) of the Local Government (Rating) Act 2002.</p> <p>Management comment</p> <p><i>Agreed and comment as per section 3.</i></p>

Implemented or closed recommendations

Recommendation	First raised	Status
Preparation for audit		
A quality review of the draft annual report be performed before it is provided for audit.	2017/18	We noted significant improvement in the preparation for the 2018/19 audit. A quality review of the draft was performed.
Landfill provision		
The Council should change its accounting policy of recognising landfill assets at revaluation to the cost method. Revaluing landfill assets creates a high level of accounting complexity that is not necessary.	2017/18	Recommendation implemented.
Asset condition information and asset management		
<ul style="list-style-type: none"> The Council continues to improve its asset information. Ensure the condition information is considered as part of the 2018/19 infrastructure valuations. Work to address the shortcoming in the current asset management practises, as identified through the LTP process. 	2017/18	<p>Council continues to improve its asset information.</p> <p>Condition information was not considered as part of the valuations. We note that it routinely is not included for most other Council valuations.</p> <p>Comments included in our interim reported dated 2 July 2019.</p> <p>We consider this closed as similar matters have been raised in section 3 and will be taken through to future years.</p>
Fixed asset capitalisation policy		
Develop a formal asset capitalisation policy.	2017/18	Recommendation implemented.
Legislative compliance - CCOs		
The Council should work with its CCOs to ensure compliance with the significant legislative requirements.	2016/17	Recommendation implemented.
FAR in a manual excel spreadsheet		
As management are not going to migrate the FAR spreadsheet data in to the finance system (MagiQ), we recommend that staff regularly review the manual spreadsheet	2016/17	Management are satisfied with the current practice. We have reviewed the excel spreadsheet at year end

Recommendation	First raised	Status
<p>FAR to ensure changes to the spreadsheet such as asset additions and depreciation are being correctly calculated. It is also important that this spreadsheet is regularly reconciled with the general ledger within the Finance system.</p>		<p>and confirmed that the internal logic is accurate.</p> <p>The infrastructure assets information from the 30 June 2019 valuations must be retained to support the aggregated information included in the FAR.</p>

Appendix 2: Disclosures

Area	Key messages
Our responsibilities in conducting the audit	<p>We carried out this audit on behalf of the Controller and Auditor-General. We are responsible for expressing an independent opinion on the financial statements and performance information and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001.</p> <p>The audit of the financial statements does not relieve management or the Council of their responsibilities.</p> <p>Our Audit Engagement Letter contains a detailed explanation of the respective responsibilities of the auditor and the Council.</p>
Auditing standards	<p>We carried out our audit in accordance with the Auditor-General's Auditing Standards. The audit cannot and should not be relied upon to detect all instances of misstatement, fraud, irregularity or inefficiency that are immaterial to your financial statements. The Council and management are responsible for implementing and maintaining your systems of controls for detecting these matters.</p>
Auditor independence	<p>We are independent of the Council in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): <i>Code of Ethics for Assurance Practitioners</i>, issued by New Zealand Auditing and Assurance Standards Board.</p> <p>In addition to the audit we have carried out an engagement in relation to the Council's Debenture Trust Deed, which are compatible with those independence requirements. Other than the audit and these engagements, we have no relationship with or interests in the Council or its subsidiaries.</p>
Fees	<p>The audit fee for the year is \$140,000, as detailed in our Audit Proposal Letter.</p> <p>Other fees charged in the period are \$3,500, for the audit of the Debenture Trust Deed.</p>
Other relationships	<p>We are not aware of any situations where a spouse or close relative of a staff member involved in the audit occupies a position with the Council or its subsidiaries that is significant to the audit.</p> <p>We are not aware of any situations where a staff member of Audit New Zealand has accepted a position of employment with the Council or its subsidiaries during or since the end of the financial year.</p>

AUDIT NEW ZEALAND

Mana Arotake Aotearoa

Level 3, 335 Lincoln Road
PO Box 2
Christchurch 8140

www.auditnz.govt.nz

