



# A G E N D A

## Executive Committee

### Council Chambers

**Tuesday**

**16 February 2016**

**commencing at 9.00am**

Cr. M.S. Dawson (**Chairperson**)  
His Worship the Mayor, M.T. Havill  
Deputy Mayor Cr. P.M. Cox  
Cr. J.H. Butzbach, Cr. D.G. Hope,  
Cr. L.J. Martin, Cr. M.D. Montagu,  
Cr A. P. Thompson, Cr. C.A. van Beek

**NOTICE IS HEREBY GIVEN THAT A MEETING OF THE EXECUTIVE COMMITTEE WILL BE HELD IN THE COUNCIL CHAMBERS, 36 WELD STREET, HOKITIKA, ON TUESDAY 16 FEBRUARY 2016 COMMENCING AT 9.00AM**

---

### **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 AND APOLOGIES:**

##### **1.1 Apologies**

Cr D.G. Hope.

##### **1.2 Interest Register**

## **2. CONFIRMATION OF MINUTES:**

### **2.1 Confirmation of Minutes of Executive Committee Meeting**

#### **2.1.1 Minutes of the Executive Committee Meeting – 9 September 2015**

*(Pages 10-17)*

## **3. PUBLIC FORUM**

*The public forum section will commence at the start of the meeting.*

## **4. BUSINESS:**

### **4.1 Audit Management Report 30 June 2015**

*(Pages 18-46)*

### **4.2 Executive Committee Work Plan - verbal update**

*(Page 47)*

## **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**

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)(a) and (d) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution are as follows:

GENERAL SUBJECT OF THE MATTER TO BE CONSIDERED		REASON FOR PASSING THIS RESOLUTION IN RELATION TO THE MATTER	GROUND(S) UNDER SECTION 48(1) FOR THE PASSING OF THIS RESOLUTION
1.	Confidential Minutes	To protect the privacy of individuals/organisations under Section 7(2)(a).	48(1)(a)(i) & (d)

## **TERMS OF REFERENCE FOR THE EXECUTIVE COMMITTEE**

**REPORTING TO:** Council

**CONSTITUTION:** Cr Dawson (Chairperson)  
All other Elected Members

**MEETING FREQUENCY:** As required.

**QUORUM:** Chairperson and any three members.

**OBJECTIVE:**

1. To enable Council to carry out its statutory and contractual responsibilities as employer of the Chief Executive.
2. To implement Council policies and processes for the selection, appointment and remuneration of directors to Council Controlled Organisations and trustees to Council Organisations.
3. To maintain an on-going liaison with Boards of Directors of Council-Controlled Organisations in regard to Council's interest as a shareholder.
4. To undertake the role of Audit Committee.
5. To undertake the role of Risk Management Committee.
6. To determine matters within the authority of Council where the urgency of those matters precludes an Extraordinary Meeting of the full Council.

**SCOPE OF ACTIVITY:**

**Employment of Chief Executive**

1. All matters arising under Section 42 and Clauses 33, 34, 35 and 36 of Schedule 7 of the Local Government Act 2002.
2. All matters arising from Council's employment agreement with the Chief Executive, including but not limited to the conduct of performance reviews and remuneration reviews.

## **Appointment of Directors and Trustees**

3. All matters pertaining to the selection, appointment and remuneration of directors to Council-controlled organisations and trustees to Council organisations, in accordance with Council's Policy on Appointment and Remuneration of Directors.

## **Audit and Risk**

4. All matters pertaining to good practice for Audit and Risk, including consideration of the following matters.

### **(a) Internal Control Framework**

- i. Review whether management's approach to maintaining an effective internal control framework is sound and effective.
- ii. Review whether management has taken steps to embed a culture that is committed to probity and ethical behaviour.
- iii. Review whether there are appropriate systems, processes and controls in place prevent, detect and effectively investigate fraud.

### **(b) Internal Reporting**

- i. Consider the processes for ensuring the completeness and quality of financial and operational information being provided to the Council.
- ii. Seek advice periodically from internal and external auditors regarding the completeness and quality of financial and operational information that is provided to the Council.

### **(c) External Reporting and Accountability**

- i. Agree the appropriateness of the Council's existing accounting policies and principles and any proposed change.
- ii. Enquire of internal and external auditors for any information that affects the quality and clarity of the Council's financial statements and statements of service performance, and assess whether appropriate action has been taken by management in response to the above.
- iii. Satisfy itself that the financial statements and statements of service performance are supported by appropriate management signoff on the statements and on the adequacy of the systems of internal control (i.e. letters

of representation), and recommend signing of the financial statements by the Chief Executive/Mayor and adoption of the Annual Report or Long Term Plan.

- iv. Confirm that processes are in place to ensure that financial information included in the entity's Annual Report and Long Term Plan is consistent with the signed financial statements.

(d) Risk Management

- i. Review whether management has in place a current and comprehensive risk management framework and associated procedures for effective identification and management of the Council's significant risks.
- ii. Review Council's annual insurance renewal and ensure the appropriateness of the level of self-insured risk.
- iii. Consider whether appropriate action is being taken by Management to mitigate Council's significant risks.

(e) Internal Audit

- i. Review and approve the internal audit coverage and annual work plans, ensuring these plans are based on the Council's risk profile.
- ii. Review the adequacy of management's implementation of internal audit recommendations.
- iii. Review the internal audit charter to ensure appropriate organisational structures, authority, access, independence, resourcing and reporting arrangements are in place.

(f) External Audit

- i. At the start of each audit, confirm the terms of the engagement, including the nature and scope of the audit, timetable and fees, with the external auditor.
- ii. Receive the external audit report(s) and review action to be taken by management on significant issues and audit recommendations raised within.
- iii. Conduct a members-only session (i.e. without any management present) with external audit to discuss any matters that the auditors wish to bring to the Committee's attention and/or any issues of independence.

- iv. Consider any recommendation by management that the Office of the Auditor-General replace the external auditor.

(g) Compliance with Legislation, Standards and Good Practice Guidelines

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

**Emergency Powers**

- 5. All matters within the authority of Council, other than those reserved to Council under s.48 and Sch. 7 of the Local Government Act 2002.

**POWER TO ACT:**

**Employment of Chief Executive**

- (a) To decide all matters arising under s.42 and Cl. 33, 34, 35 and 36 of Sch. 7 of the Local Government Act 2002 and all matters arising from Council's employment agreement with the Chief Executive, except for:
  - (i) The appointment of a Chief Executive; and
  - (ii) The re-appointment of a Chief Executive for a second term under Cl. 34 Sch. 7 of the Local Government Act 2002; and
  - (iii) The termination of employment of the Chief Executive.
- (b) In undertaking performance reviews, whilst the process for undertaking the review is at the Committees discretion; the Committee must:
  - (i) Seek the views of all Councillors, prior to assessing the Chief Executives performance review.
  - (ii) Seek the advice of an independent employment advisor, at least annually, on good practice, in undertaking a review.
- (c) In undertaking a remuneration review the Committee must seek the advice of an independent employment advisor, on good practice, in undertaking a review.

## **Appointment of Directors and Trustees**

- (d) All matters pertaining to the selection, appointment and remuneration of directors to Council Controlled Organisations and trustees to Council Organisations, except for the appointments of directors and trustees.
- (e) All matters are to be in accordance with Council adopted policy on Appointment and Remuneration of Directors.

## **Emergency Powers**

- (f) To decide all matters within the authority of Council where urgency precludes convening an Extraordinary meeting of the full Council, except for those matters reserved to Council under s.48 and Sch. 7 of the Local Government Act 2002.

## **Other**

- (g) Approve Executive Committee meeting minutes.
- (h) Appoint sub committees with written terms of reference, resolved by the Committee.

## **POWER TO RECOMMEND**

### **Employment of Chief Executive**

- (a) The appointment of the Chief Executive;
- (b) The re-appointment of a Chief Executive for a second term under Cl. 34 Sch. 7 of the Local Government Act 2002.
- (c) The termination of employment of the Chief Executive.

## **Appointment of Directors and Trustees**

- (d) Appointees for directors to Council Controlled organisations and trustees to Council organisations that meet the requirements of s.57 of the Local Government Act 2002.

## **Council Controlled Organisations**

- (e) Any matters pertaining to Council's interest as a shareholder in Council Controlled Organisations, including:
  - i. Consideration of Statements of Intent



- ii. Review of six monthly and annual performance against the statements of intent.
- iii. Consideration of major transactions.
- iv. Consideration of major transactions, acquisitions and disposals.

**Adopted by Council on 28 November 2013**  
**Amended and Readopted by Council on 27 February 2014**  
**Amended and Readopted by Council on 26 March 2015**



# Executive Committee Minutes

## MINUTES OF A MEETING OF THE EXECUTIVE COMMITTEE OF THE WESTLAND DISTRICT COUNCIL, HELD IN THE COUNCIL CHAMBERS, 36 WELD STREET, HOKITIKA ON WEDNESDAY 9 SEPTEMBER 2015 COMMENCING AT 4.00 PM

---

### 1. MEMBERS PRESENT, APOLOGIES AND INTEREST REGISTER

His Worship the Mayor, M.T. Havill

Cr. M.S. Dawson (**Chairperson**)

Deputy Mayor P.M. Cox

Cr J.H. Butzbach (part of the meeting), Cr L.J. Martin, Cr M.D. Montagu, Cr A.P. Thompson, Cr C.A. van Beek (from 4.22 pm)

#### 1.1 Apologies

Cr C.A. van Beek for lateness

Cr D.G. Hope

Moved His Worship the Mayor, seconded Deputy Mayor Cox and **Resolved** that the apology from Cr D.G. Hope be received and accepted.

#### Staff in Attendance

T.L. Winter, Chief Executive; G. Borg, Group Manager: Corporate Services (part of the meeting), L.A. Crichton, Finance Manager (part of the meeting); V. Goel, Group Manager: District Assets (part of the meeting); D.M. Maitland, Executive Assistant (part of the meeting).

#### 1.2 Interest Register

The Interest Register was circulated and no amendments were noted.

## **2. CONFIRMATION OF MINUTES**

### **2.1 Confirmation of Minutes of Executive Committee Meeting**

#### **2.1.1 Minutes of the Executive Committee Meeting – 11 August 2015**

Moved Cr Montagu, seconded Cr Dawson and **Resolved** that the Minutes of the Executive Committee Meeting held on the 11 August 2015 be received as a true and correct record of the meeting.

## **3. PUBLIC FORUM**

The following members of the public attended the Public Forum Section of the meeting:

- Mr Rex Keenan, Mr Hugh Cameron, Mrs Nancy Prangnell (Westland Residents and Ratepayers Association).
- Mr John Drylie (observer).

### **a. Mr Hugh Cameron**

Mr Cameron noted that an open letter had been sent to the Mayor and Councillors on the 31 August 2015 and a copy had also been in the Letters to the Editor Section of the Hokitika Guardian on the 1 September 2015.

Mr Cameron advised that the Westland Residents and Ratepayers Association (WRRRA) had a shortlist of five actions proposed to them that they asked Council to adopt at the 24 September Council Meeting as follows:

- a) Council should ballot ratepayers on whether they want a capital value or land value based rating system. If Council is confident in its decision then it should be eager to inform ratepayers of the reasons for its preference and allow ratepayers to decide whether they agree or not.
- b) Council should scale back the worst individual rates increases and decreases caused by its rating review. A 20% per annum upper limit on variances from 2014 levels, applied to 2016 rates assessments and beyond, would spread those increases over a number of years, giving worse affected ratepayers more time to sort out their finances, or to sell up and move elsewhere.
- c) Council should actively seek feedback on its new rating system at the next annual plan consultation and undertake to fine-tune the system if/when serious anomalies are identified.
- d) Council should provide an undertaking that future consultation will be conducted within the strict legal framework of the Local Government Act,

in particular (a) that financial information is given in a recognisable, uniform format, (b) that clear and justifiable reasons are given for Council's preferences, and (c) that the consultation period runs from the date that full information is provided until the date on which submissions close (as adjudicated in the Karaka Point case).

- e) Council should undertake to provide more opportunity, beyond the bare minimum legislative requirements, for the worst affected by future policy changes, to help them understand the financial ramifications and to facilitate further discussion with those worse affected (as adjudicated in the Karaka Point case).

Mr Cameron also discussed the following:

- Asked that Councillors make a decision relating to the legal opinion.
- Noted that Council did not give one full month for consultation of the Long Term Plan document.
- Asked for a cap on the massive rate rises.
- Noted that the WRRAs are the only group in New Zealand that can ensure that Councils abide by the legislation.
- Good consultation is as important to the WRRAs as good financial management.
- Concerned that the financial information for the years 2014-2015 and 2015-2016 did not match.

*His Worship the Mayor asked Mr Cameron if the WRRAs agree in principle that commercial businesses should pay commercial rates.*

*Mr. Cameron replied that there was no problem with that.*

*His Worship the Mayor asked Mr Cameron if the WRRAs agree in principle that there were too many differentials for what was there, for example, one side of Revell Street or one side of east town belt*

*His Worship the Mayor advised he is trying to get an understanding for the principles that the WRRAs have as a group around the rating system.*

*Mr Cameron replied that the WRRAs like a simplified system and Council did a good job there.*

*Cr Thompson asked if the WRRAs agree that if the rates have gone down, should they have back up again.*

*Mr Cameron advised they both need pulling back.*

*Mr Cameron advised that any decreases should be brought in gradually just like any increases should be brought in gradually. That is a real bonus to people.*

*Mr Cameron asked that there be a transition spread over 10 years. 100% in one year is not affordable. No need for the spread. That would have to be consulted on. It would have to go into the next Annual Plan.*

*Cr Martin noted that in switching to capital value rating, utilities are able to be rated. How does the WRRRA view that the rate take has been moved away from rural/residential which wouldn't happen under a capital value system.*

### **3.2 Rex Keenan**

Mr Keenan noted that there has been a difference in the rates paid on one side of Revell Street to the other as the rates should be the same either side of the street.

*Cr van Beek attended the meeting at 4.22 pm.*

*The Chairman thanked Mr Keenan, Mr Cameron, Mrs Prangnell and Mr Drylie for attending the meeting and speaking with Council.*

## **4. BUSINESS:**

*The following items were taken out of order to the Agenda papers.*

### **4.2 Omnibus Report: Executive Committee**

#### **4.2.1 Executive Committee Action Items**

*The Chair went through the Action Items from the Formal and Informal Executive Committee Meetings and these were updated.*

#### **4.2.2 Executive Committee Workplan 2015-2016**

Moved Cr Butzbach, seconded Cr Thompson and **Resolved** that the Executive Committee Workplan for 2015-2016 be received.

#### **4.2.3 2014-15 Annual Report**

*The Group Manager: Corporate Services spoke to this item and advised that the financials for the Annual Report are being finalised this week, the document will be then reviewed and will be provided to Council informally after the 24 September Council Meeting. The Audit process will commence Monday 28 September 2015.*

*It was noted that letter of engagement has been received and will be circulated to the Mayor and Councillors.*

Moved Cr van Beek, seconded Cr Montagu and **Resolved** that the verbal update from the Group Manager: Corporate Services be received

#### **4.2.4 Overdue Rates and Bad Debts – Resourcing**

*The Group Manager: Corporate Services spoke to this item and advised the process for overdue rates and bad debts, noting that resourcing for this process will be undertaken internally for a quarter with the process being reviewed after that.*

Moved Cr Martin, seconded Cr Thompson and **Resolved** that the verbal update from the Group Manager: Corporate Services be received.

*Cr Butzbach left the meeting at 4.20 pm.*

#### **4.2.5 Update on the Rating Information Database**

*The Group Manager: Corporate Services and also the Assistant Accountant spoke to this item.*

*The Group Manager: Corporate Services advised that there a process that is required for notifying the 180 property owners of the re-classification of their properties. The affected ratepayers will be notified by the 30 September 2015 and any issues arising from this will come to the full Council.*

*Cr Butzbach returned to the meeting at 4.36 pm.*

Moved Cr Montagu, seconded Cr Butzbach and **Resolved** that the verbal update from the Group Manager: Corporate Services be received noting that the process has been commenced with letters being sent to ratepayers by the 30 September 2015.

#### **4.2.6 Health and Safety Legislation**

*The Chief Executive provided a verbal update on this item.*

Moved Cr Martin, seconded Cr van Beek and **Resolved** that the Executive Committee receives the update and that Health and Safety legislative changes are reported on at the November 2015 Executive Committee Meeting.

#### **4.2.7 Health and Safety Reporting**

*The Chief Executive provided a verbal update on this item.*

Moved Deputy Mayor Cox, seconded Cr van Beek and **Resolved** that the Executive Committee receives this update and that the CE reports back in November 2015 on a simplified reporting – traffic light, dashboard.

#### **4.2.8 WHL Director Appointment Timeline and Process**

*The Chief Executive spoke to this item.*

Moved Cr Martin, seconded Cr Butzbach and **Resolved** that the Executive Committee approves the timeline for appointment of directors to the Board of Westland Holdings Ltd subject to the timeline being flexible enough to bring the Executive Committee Reviewing applicants and appointments confirmed being able to be brought forward and the process being managed in-house.

#### **4.1 WHL Director Remuneration**

*The Chief Executive spoke to this item.*

*His Worship the Mayor advised that he is resigning from Westland Holdings Limited and is not accepting remuneration for being a Director on the Holding Company.*

Moved Mayor Havill, seconded Cr van Beek and **Resolved** that the Executive Committee approves an increase in remuneration for the chair and directors of Westland Holdings Ltd effective 1 October 2015 as follows:

Chair	\$12,000
Director x2	\$8,000 each
Total (per annum)	\$28,000

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

Moved Cr Butzbach, seconded Cr van Beek and **Resolved** that Council exclude the public in accordance with Section 48, Local Government Official Information and Meetings Act 1987 at 5.22 pm.

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 Management

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)(a) and (d) of the Local Government Official Information and Meetings Act 1987 for the passing of this 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
1.	Minutes	Confidential Minutes – 11 August 2015	Good reasons to withhold exists under Section 7.	48(1)(a)(i) & (d)
2.	Report	Risk Management	Good reasons to withhold exists under Section 7.	48(1)(a)(i) & (d)

This resolution is made in reliance on Section 48(1)(a) of the Local Government Official Information and Meetings Act 1987 and the particular interest or interests protected by Section 6 or 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
5.1	Protection of privacy of natural persons/organisations.	Section 7(2)(a)
5.2	Protection of information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information and to maintain legal professional privilege.	Section 7(2)(b)(ii) and (g)

Moved Cr van Beek, seconded Cr Thompson and **Resolved** that the business conducted in the “Public Excluded Section” be confirmed and the public be readmitted at 5.52 pm.

**MEETING CLOSED AT 5.52 PM**

Confirmed by:

---



**Cr Mark Dawson**  
**Chair**

**Date**

---

**Cr Mark Dawson**  
**Chair**

---

**Date**

# Report



**DATE:** 16 February 2016

**TO:** Executive Committee

**FROM:** Group Manager: Corporate Services

---

## **AUDIT MANAGEMENT REPORT YEAR ENDED 30 JUNE 2015**

### **1 SUMMARY**

- 1.1 The purpose of this report is to present the Audit Management Report (attached as Appendix 1) for the year ended 30 June 2015.
- 1.2 The report is written by Bede Kearney, Audit Director for Audit New Zealand and has been reviewed by Council management. Observations and comments from both are contained within the report.
- 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 the Committee receives the Audit Management Report for the year ending 30 June 2015.

### **2 BACKGROUND**

- 2.1 Audit Management Reports are provided annually to Council and provide commentary and recommendations on observations made by the audit team during the Annual Report audit process.
- 2.2 A draft report is delivered to the Chief Executive in the first instance to enable the Executive Team to provide a response to the comments. This then enables elected members to receive a full report on the issue/recommendation and the action being taken by staff to address it.

### 3 CURRENT SITUATION

- 3.1 The Audit Management Report for 30 June 2015 confirms that Council has made substantial progress in many areas, but also reflects that continued improvements are required.
- 3.2 There are no items described as 'Urgent' in the report and several of the recommendations and observations are being addressed by enhancements that are currently in progress.
- 3.3 The recommendations contained in the report will be incorporated into the development of Council's internal controls framework and risk management framework.
- 3.4 The report also reflects on the quality and completeness of Council's statements of service performance. The financial year ended 30 June 2016 will be the first year of reporting against the performance measures contained in the Long Term Plan 2015-25. Council has the opportunity to monitor progress in this area as it receives quarterly reports during the year.

### 4 RECOMMENDATION

- A) **THAT** the Committee receives the Audit Management Report for the year ended 30 June 2015.
- B) **THAT** the Committee approves the public release of the Audit Management Report for the year ended 30 June 2015.

**Gary Borg**  
**Group Manager: Corporate Services**

**Appendix 1:** Audit Management Report 30 June 2015

Report to the Council on the audit of  
**Westland District Council**  
for the year ended 30 June 2015

# Management report

## Key messages

We have completed the audit for the year ended 30 June 2015. This report sets out our findings from the audit and where appropriate makes recommendations for improvement. It covers our findings from both the interim audit and the final year end audit.

### Control environment

We updated our knowledge and understanding of the Westland District Council's (the District Council's) control environment and we assessed whether there were any significant changes to the District Council's control environment, since our prior year audit.

Overall, we concluded there are aspects of the control environment that we can rely on. However, we could not fully rely on certain controls. Our findings are discussed in section 3 and 5 of this report. Our assessment also found that the District Council's monitoring against budget has improved in the current year, with the Council and management receiving monthly reports consistently from January. If the monthly monitoring continues in the 2015/16 year, we will be able to place some reliance on the monitoring controls going forward.

### Opinion

We issued an unmodified audit opinion on 2 November 2015. In forming our audit opinion we considered a variety of issues. Our key issues included:

**Revaluations:** This year was a full revaluation cycle, with all the revalued assets classes being up for review. The valuations resulted in a large net increase in the assets values. These movements have been mainly driven by changes in cost indexes and better asset information since the last valuation. (Refer to section 1.2)

**The new Public Benefit Entity (PBE) accounting standards:** This year the District Council transitioned to the new PBE accounting standards. There were no significant changes from the transition to the new PBE standards. (Refer to section 1.3)

### Other key considerations

**Financial sustainability:** The District Council has taken some significant steps to improving its financial position and its long term financial sustainability. (Refer to section 2.1)

**Performance reporting:** The District Council will be reporting against a new Long Term Plan (LTP) in the 2015/16 year. It should focus on ensuring it has systems in place to report against all of its measures, including the new mandatory performance measures.

**Capacity and capability of the finance team:** The 2014/15 annual report process was much improved. While there were a number of audit adjustments to the draft financial statements, these largely related to disclosures as opposed to the underlying financial information in the finance system. We believe that, the prospects for continued improvement as new staff continue to develop their roles is good. (Refer to section 2.2)

## Issues identified during the audit

The following table summarises our recommendations and their priority:

Recommendation	Urgent	Necessary	Beneficial	Report section
<b>Property, plant and equipment valuations</b> Ensure that: <ul style="list-style-type: none"> <li>• The financial information in the accounting fixed assets register (FAR) is consistent with asset management data.</li> <li>• Future revaluations are carried out using the appropriate valuation method.</li> <li>• The FAR is updated to reflect the detailed componentisation as per this year's revaluation reports.</li> <li>• Revaluation timings align with the stated cycles in the accounting policies.</li> </ul>		✓		1.2
<b>Statement of Service Performance (SSP)</b> Ensure that: <ul style="list-style-type: none"> <li>• systems are in place to report against all performance measures in the 2015-25 LTP; and</li> <li>• there are continued enhancements in how the annual report tells a fuller and more comprehensive performance story.</li> </ul>		✓		2.2
<b>Capacity and capability of the finance team</b> Implement better controls and review procedures when transferring information from the financial model to the annual report template.		✓		2.3

### Findings from the review of the internal control environment

Recommendation	Urgent	Necessary	Beneficial	Report section
<b>Rates</b> Implement internal control checks to address these areas where we have identified the lack of segregation of duties.		✓		2.4
<b>Risk management</b> Keep risk management processes up-to-date. This should be supported by the formal reporting and documentation of discussions held.		✓		3.1.2
<b>Asset management</b> Continue to work on improving asset management information, including addressing our recommendations from our LTP audit.		✓		3.1.3
<b>Fraud risk management</b> Undertake an annual review of areas susceptible to fraud and work on bringing fraud procedures to up-to-date.		✓		3.1.4
<b>Expenditure (including sensitive expenditure)</b> Approve contracts in line with the approved delegation. Segregate duties so that the same employee cannot raise a purchase order, receive the goods, and approve the invoice.		✓		5
<b>Creditor masterfile</b> Ensure the review of the creditors' masterfile is timely.		✓		5
<b>Journals</b> Have all journals reviewed by an independent person, before they are posted.		✓		5
<b>Payroll masterfile</b> Ensure the co-reviewer signs off every masterfile change report, as evidence of their review.		✓		5

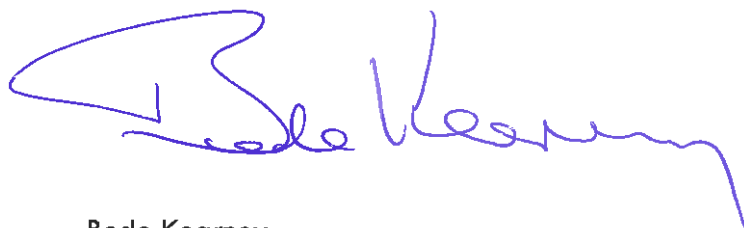
There is an explanation of the priority rating system in Appendix 1.

A number of the recommendations above were raised in the prior year. Appendix 2 shows the status of recommendations made in previous reports.

---

**Thank you**

We would like to thank the council and management for the assistance received during the audit.



Bede Kearney  
Audit Director  
9 February 2016



---

## Contents

1	Our audit opinion .....	6
2	Significant matters, issues, or risks considered in this audit .....	10
3	Assessment of the control environment.....	14
4	Areas of interest for all Local Government entities .....	17
5	Internal controls.....	18
6	Status of previous recommendations.....	22
	Appendix 1: Explanation of priority rating system .....	23
	Appendix 2: Status of previous recommendations.....	24
	Appendix 3: Mandatory disclosures.....	26

## **1 Our audit opinion**

We issued an unmodified audit opinion on 2 November 2015. This means that we were satisfied that the financial statements and statement of service performance presented fairly in all material aspects the District Council's activity for the year and its financial position at the end of the year.

In forming our audit opinion, we considered the following matters.

### **1.1 Uncorrected misstatements**

The financial statements are free from material misstatements, including omissions. During the audit, we discussed with management any misstatements we found, other than those which were clearly trivial. All misstatements we discussed with management were adjusted. We are satisfied that any uncorrected misstatements are individually and collectively immaterial.

### **1.2 Property, plant and equipment valuations**

Property, plant and equipment (PPE) represents the most substantial investment of the District Council's funds, services and activities. The integrity of underlying information and appropriate accounting treatment is important to the overall reliability of the District Council's financial statements and as a base for the Council determining the level of its rates.

All the District Council's assets under the revaluation regime were due to be revalued as at 30 June 2015. The categories of assets revalued as at 30 June 2015 were buildings, the three waters and the roading assets. Land and solid waste assets were also due for valuation but were not formally valued at 30 June 2015. We accepted this on the basis of materiality.

Overall, we confirmed that the recognition and disclosures in the annual report fairly reflect the values in the revaluation reports and that the revaluations movements have been appropriately accounted for in the annual report.

Our comments and recommendations on our findings from the review of the valuations are discussed below.

#### **1.2.1 Buildings**

For the buildings' valuation there were two key issues that arose:

##### **Assets missed and found**

The schedule of buildings given to the valuer by the asset managers was not sourced from the fixed asset register (FAR) and the information was not consistent with the FAR. Around \$2 million of assets were omitted from the schedule provided to the valuer and these were not revalued. In addition the District Council also found about \$1.4 million of assets that had not been previously captured in the District Council's FAR.

We assessed the potential impact of the omissions given the movements in other buildings' valuations. We were satisfied that the omission did not have a material impact on the annual report. We also confirmed that the District Council had been through a due process to confirm that the new assets discovered were owned by the District Council and that the District Council had title to the assets.

While we accepted the treatment of omitted and discovered assets on the basis of materiality, these findings indicate that the District Council needs to do work going forward to ensure that the asset management information and the financial information in the FAR are consistent. We plan to review progress in this area as part of our 2015/16 audit.

#### **Incorrect valuation method**

Buildings were valued by an external valuer and all buildings (operational and infrastructural) were valued on a Depreciated Replacement Cost (DRC) basis.

Many of the buildings are specialist in nature as they are purpose built in relation to the District Council's services (eg swimming pools, pumping station buildings) and a DRC valuation is appropriate. However some buildings, in particular the District Council's administrative headquarters building, are of a more general nature and should be valued on a fair value basis which is market based.

We noted that the buildings' valuation showed a much larger increase than would normally be expected over the five years since the previous valuation. When we investigated further we found that the previous valuation in 2009 had not been booked and therefore the revaluation increase being booked was against a much older valuation. We did not establish when the last valuation was booked but were satisfied this finding adequately explained the size of the increase. We reviewed the asset register and referred back to the 2009 valuation to determine whether there were any significant changes. Overall we were satisfied that based on the nature of the assets across the register and the total amounts involved, there was no overall risk of material error based on the incorrect use of the DRC method for some assets.

#### **Recommendations**

Ensure that the asset management data is consistent with the financial information in the accounting fixed assets register (FAR).

Ensure that future revaluations are carried out using the appropriate methodology.

#### **Management comment**

*This asset class should be fully reconciled in 2015/16. The omissions related to assets that had been owned for many years but had not been included in the FAR. All new additions are accounted for and a process has been established to ensure that the Fixed Asset Register agrees to the Asset Management System. The FAR will be updated as the asset management data is continuously refined.*

---

*A contract has been agreed with a registered valuer to ensure that appropriate valuations are completed within policy timeframes.*

### **1.2.2 Three waters valuations**

For the three waters valuation there was one key issue that arose:

#### **Findings**

The three waters' revaluations showed very large increases, well above what might be expected from cost driven increases. When we investigated this we found that the previous valuations had some significant shortcomings.

The June 2015 valuations were based on more detailed component analysis while we found large items of plant in the previous valuation which were not componentised at all. An example was a single line for water treatment plant at a cost of \$4 million in the previous valuation. This was depreciated over a 10 year life. In the June 2015 valuation this item was broken down in 107 components and had a valuation of \$7.2 million, with lives ranging from seven to 60 years.

Overall we were satisfied that the three waters' June 2015 valuation is an improvement from the prior valuation. This is primarily due to better componentisation of the assets. We are satisfied that the June 2015 revaluations were reasonable on the basis of the District Council's improved internal processes and the quality of the independent peer review.

However, we found from our review that the detailed componentisation from the June 2015 valuations has not yet flowed through to the financial FAR. While this did not impact on 2014/15 the District Council will need go through a process of updating the FAR to reflect the detailed componentisation. This work will be essential to the calculation of the depreciation of assets for 2015/16 and beyond.

#### **Recommendation**

Update the FAR to reflect the detailed componentisation from the June 2015 valuation.

#### **Management comment**

*It is intended that this work will be completed during 2015/16.*

### **1.2.3 Roading valuation**

For the roading valuation there was one key issue that arose:

#### **Findings**

The roading asset revaluation showed increases from the previous valuation performed three years ago. The increases in asset values were much smaller than the three waters revaluation and were in line with our expectations.

However, similar to the three waters situation detailed componentisation from the valuation has not been flowed through to the financial FAR.

**Recommendation**

Update the FAR to reflect the detailed componentisation from the June 2015 valuation.

**Management comment**

*This is planned for 2015-16.*

**1.2.4 Non-revalued assets**

**Findings**

Land (Operational and Infrastructural) and Solid Waste assets which were due for revaluation this year were not revalued. We have accepted this, on the basis of PPE materiality. However, going forward the District Council should ensure that valuations align with the GAAP and the District Council's stated revaluation cycle in its accounting policies.

We did not identify any indicators of impairment for the District Council's other property, plant and equipment assets.

**Recommendation**

Align the revaluation cycle with the stated cycles in the accounting policies.

**Management comment**

*The contract referred to under 1.2.1 covers this.*

**1.3 Transition to the new public benefit entity accounting (PBE) standards**

This year the District Council was required to prepare its financial statements using the new PBE accounting standards. While the subsidiary entities continued to apply the for-profit accounting framework.

The District Council's Finance team reviewed the updated standards and disclosed the changes in the draft financial statements given to us. There was a note disclosure that summarised the impact of the transition to the new framework. While there was little significant impact from the transition; as part of our review we identified several areas where further changes were required. These were all made by the District Council when requested.

**Recognition and Measurement:**

The District Council did not identify any material recognition and measurement differences arising from the new PBE accounting standards. As such no adjustments were

made to the opening statement of financial position to restate the comparatives. We were satisfied that this was appropriate.

In coming to our conclusion we reviewed the significant revenue streams and confirmed that the new classifications of exchange and non-exchange revenue had no impact on how or when revenue should be recognised.

We also completed a transition checklist identifying potential changes arising from the transition for all standards. This included consideration of differences between the PBE and the for-profit frameworks for the group. No material issues were noted.

The District Council has correctly disclosed in the accounting policies note to the financial statements that there have been no reclassifications of the financial statements or recognition and measurement adjustments, in adopting the new PBE accounting standards.

#### **Presentation and disclosure:**

The main impacts arising from the new PBE accounting standards relate to the presentation and disclosure. We reviewed the updated accounting policies and the disclosures and confirmed that these align with the new PBE accounting standards. We completed a disclosure checklist to determine whether the draft financial statements complied with the new accounting standards. We identified a number of adjustments to the draft financial statements. All material disclosure adjustments were incorporated in the final annual report.

As part of our review we also confirmed that the subsidiaries' accounting policies are materially consistent with the District Council's group accounting policies.

## **2 Significant matters, issues, or risks considered in this audit**

### **2.1 Financial sustainability**

The District Council's financial situation has been an area of concern for several years. The 2011/12 and 2012/13 years showed a marked deterioration in this respect. The District Council incurred a loss of \$1.6 million in 2012/13, following on from the loss of \$2.5 million in 2011/12. The District Council also had a large negative working capital position at 30 June 2013.

Initially the working capital position was addressed in the short term by the extension of the existing loan facility and the entering into of an additional facility with Westpac. At 30 June 2015 the District Council had two loan facilities available with \$9.5 million expiring on 1 July 2016 and \$14.6 million expiring 1 July 2017. The District Council's total borrowings as at 30 June 2015 were \$16.6 million.

The need to put the District Council's financial situation on a more sustainable footing has been addressed through the funding approaches set out in the 2014/15 Annual Plan and followed up in the 2015-25 LTP. The Council has significantly increased levels of rating so it could start to fund depreciation and start repaying debt. As part of this move to be more sustainable financially it has also reduced some levels of service.

While the 2014/15 Annual Plan forecast a loss of \$1.2 million compared to a surplus of \$1.2 million in the 2012-22 LTP, a large part of this was attributable to better financial forecasting rather than underlying changes in the activities or their funding. This underlying deficit situation has been addressed in the 2015-25 LTP which forecasts modest surpluses across all years of the LTP.

The District Council has also shown a firm commitment to having more effective financial management processes and being financially sustainable. From January 2015 the Council and management have been receiving monthly financial reporting.

The 2014/15 financial statements show a deficit of \$1.9 million against a budgeted deficit of \$1.1 million. The major contributors to the difference were the unbudgeted items of loss on disposal of assets of \$205k and losses on interest rate swaps of \$410k. The main driver of the net difference of \$3 million from last year's surplus of \$1.1 million is the grants revenue received for the cycle trail of \$2.6 million in 2013/14. We believe that the differences do not reflect negatively on the District Council's financial forecasting or financial management processes. Nor do they undermine the District Council's commitment or the effectiveness of its drive to a more financially sustainable position.

## **2.2 Statement of Service Performance (SSP)**

We reviewed the District Council's environment, processes, and controls for developing service performance objectives and targets, as well as monitoring and reporting on service performance. This included a review of the 2014/15 Annual Plan.

As part of our year-end audit of the reported service performance information, we focused on:

- the quality of the overall "story" the performance reporting tells;
- the reliability/accuracy of the reporting;
- the completeness of the reporting against the performance framework as outlined in the LTP; and
- Compliance with relevant legislation (in particular the Local Government Act 2002, Schedule 10).

Consistent with the prior year, the Statement of Service Performance had some shortcomings. However overall we were able to issue an unmodified audit opinion because the key performance measures were reported on and the narrative complemented these by providing a reasonable "performance story".

### **Findings**

As in the prior year, some performance measures were not reported against. For example the District Council did not undertake its residents' satisfaction survey or the BERL impact report in relation to the Wildfoods Festival.

In our Audit Arrangements Letter (AAL) dated 13 August 2015 we encouraged the District Council to provide additional narrative discourse to help tell a fuller and cohesive story. The District Council's performance story has improved. The addition of a significant variance column has also helped by providing more context for the figures reported.

In the AAL we also encouraged the District Council to address the SSP systems issues which we had identified in our prior year interim and final management reports. We found that there has been little progress in this area. Refer section 5 of this report for our update on the prior year issues.

We note that the District Council will be reporting against its 2015-25 LTP in the 2015/16 year and some of our prior year recommendations may not be relevant to the new measures in the 2015-25 LTP. Nevertheless, the key underlying message is still relevant; the District Council should focus on ensuring it has systems in place to report against all of its performance measures, including the new mandatory performance measures. Not reporting against all measures may have impact on the audit report in 2016 and beyond.

### **Recommendations**

Ensure there are systems in place to report against all of its measures in the 2015-25 LTP.

Continue to develop the performance story within the annual report.

### **Management comment**

*This will be a focus for development of Council's quarterly reporting as well as continuous internal performance monitoring in 2015/16. The inception of the customer service centre will be a launch-pad for this. As detailed in the LTP the measurement of reticulated water losses as imposed by Drinking Water Standard will not be measured because the cost is prohibitive. Other measures may be recorded at intervals of greater than 12 months.*

## **2.3 Capacity and capability of the Finance team**

### **Findings**

Due to on-going staff changes over the past three years, the District Council's Finance team has been stretched for some time. This was reflected in significant difficulties with the 2012/13 and 2013/14 audits. The quality of financial forecasts was also compromised and the 2012-22 LTP in particular had significant shortcomings.

Following the engagement of the new GM Corporate Services at the beginning of 2014 the 2014/15 Annual Plan was prepared on a sound basis, but further significant staffing changes within the Finance team during the 2013/14 financial year stretched the team and the District Council missed its 2014 annual report statutory deadline.

A new Finance Manager started in 2015 and there has been noticeable improvement, with regular management reporting now in place. The biggest issues we faced in 2015 were the poor quality of the asset valuations in earlier years and the fact that the audit



of the Holding Company had not been completed. Neither of these reflects directly on the current performance of the Finance team.

While the 2014/15 annual report process was better, there were a number of audit adjustments to the draft financial statements. These largely related to disclosures and not to the underlying financial information in the finance system. This indicates that information being processed in the financial system is more robust than in prior years.

Based on the progress in 2015, we believe there are prospects for continued improvement as new staff grow into their roles.

## **2.4 Annual report preparation**

### **Recommendation**

Review the process for transposing information from the financial model to the annual report template.

The main problem we encountered in terms of process was version control, in particular in relation to the Word version of the annual report document. The manual processes and quality control over the transfer of information into the Word document from the Excel working version to the published Word version were not robust. We encourage the District Council to review its process and to implement and review its processes for transferring information into the Word document.

### **Management comment**

*Management is confident that the growth in experience of new staff along with planned system enhancements and increased automation will facilitate continued improvements in this area and associated quality assurance.*

## **2.5 Rate setting process**

### **Recommendation**

Implement internal control checks to address the lack of segregation of duties.

### **Findings**

In Section 2.6 of our 2013/14 interim management report, our review of controls around rates identified the following issues, which are still outstanding. There is:

- No independent review of the reconciliation between the rates information database (RID) and the QV information.
- No review of rates assessments and invoices for compliance with relevant legislation.

This year we also noted a lack of procedures to ensure that the provisions of the Rates Remissions Policy are followed.

### **Management comment**

*An internal controls framework will be developed, but this will be only partially completed during 2015/16.*

*Review of the reconciliation between the RID and QV information will be included but this is considered low risk because the updates are mostly automated. A control template to ensure completeness will be established.*

*Evidence of independent review of the rates assessments for 2016/17 was provided during the 2015/16 audit.*

*Rates remissions are reviewed for compliance by the Group Manager: Corporate Services prior to being approved by Council.*

## **3 Assessment of the control environment**

We performed an assessment of the control environment. This assessment was for the purpose of planning the most effective and efficient audit approach so we could express an audit opinion on the District Council's financial statements and the non-financial information. We considered the overall attitude, awareness, and actions of the Council and management in establishing and maintaining effective procedures and internal controls.

In performing this assessment we consider both the "design effectiveness"<sup>1</sup> and "operational effectiveness"<sup>2</sup> of internal control. The explanation of these terms is outlined below. It is not the purpose of our assessment to provide you with assurance on internal control in its own right, therefore we provide no assurance that our assessment will necessarily identify and detect all matters in relation to internal control.

Overall, we concluded there are aspects of the control environment that we can rely on. These are some of key internal controls within the financial and non-financial systems which we tested at our interim audit. However we found we cannot rely on certain controls, including monitoring of actual financial performance against the budget as outlined below. Nor can we rely on the expenditure system controls due to some segregation of risks issues (refer to section 3 of this report for more detail).

We note that monitoring against budget has improved in the current year, with the Council and management now receiving monthly reports. This is in addition to the detailed quarterly reports received in the prior year. The quality and reliability of the information reported has also improved progressively over the past two years.

Because monthly monitoring has not been operating for the full year, we could not place full reliance on the effectiveness of this monitoring as part of our 2014/15 audit. As in the prior year, we performed additional transaction testing at the final audit. If the monthly monitoring continues in the 2015/16 year and we assess this as effective, we

<sup>1</sup> Control is effective to either prevent or detect a material error in either the financial statements and/or non-financial information. The control is "fit for purpose".

<sup>2</sup> Control has operated effectively throughout the period tested.

will be able to place reliance on these controls going forward. This could reduce the amount of detailed transaction testing required as part of our audit.

### **Internal controls**

We reviewed the internal controls in place for key financial and non-financial information systems, as detailed below. Internal controls are the policies and processes that are designed to provide reasonable assurance as to reliability and accuracy of financial and non-financial reporting, as well as compliance with significant legislative requirements. These internal controls are designed, implemented and maintained by the Council and management. Both “design effective” and “operationally effective” internal control is important to minimising the risk of either fraud or misstatement occurring. The ultimate responsibility for the effective design, implementation and maintenance of internal control rests with the Council.

In performing this assessment we identified areas where we believe the control environment can be improved. Potential improvements to internal controls within key financial and non-financial systems are reported at Section 5 of this report.

Below are areas of the broader control environment that we make specific comments about based on our work carried out during the year.

#### **3.1.2 Risk Management**

The District Council has a risk management policy which has been in place for several years. This has been reviewed and adopted by the current Council.

Our review found there is no regular formal reporting to the Council on all identified risks. While the Council is kept updated on the key risks that are currently under active monitoring and management, there is no process in place through which the Council is able to maintain a perspective on the status of all the key risks that have been identified.

From our discussion with senior management we understand that active risks are carried forward and discussed in management meetings. However there is no formal structure or process to support the ongoing monitoring of all identified risks.

The District Council's Quantate system incorporates the key risks identified at the time the system was implemented, but this system is no longer used as the basis for managing risks and it has not been kept up to date. At executive team meetings a schedule of (active) risks is used as the basis to monitor and manage risks. While this may be an effective record in relation to the risks on the schedule, other risks that the District Council has identified which are not part of this process, not periodically reviewed for whether they remain as risks to the District Council and if so whether they require more active management.

One approach the District Council could adopt going forward would be to review the existing risk schedule and update it for all identified key risks, including those in the Quantate system. This updated schedule would then provide a base against which regular reporting to both Council and senior management could occur. This would not

necessarily increase the level of detailed reporting as those risks with nothing specific to report in that period would be dealt with reasonably simply by identifying that there was nothing new to report. This would leave the primary focus on the active risks, but keep the awareness of the other risks fresh.

#### **Recommendation**

Review risk management processes, in particular how the Council and senior management are able to monitor all key risks on a regular and ongoing basis.

#### **Management comment**

*Specific risks are tabulated, reviewed and recorded in the minutes of the weekly Executive Team Meetings. Risks assessed as significant are reported to Council.*

### **3.1.3 Asset management**

As part of the LTP audit we performed a high level assessment of the District Council's planning systems and its infrastructure strategy. We also reviewed the asset management plan for roading. We found the Asset Management Plans (AMP) needed improvement.

We made recommendations in our LTP management report, to strengthen the current asset management processes.

The District Council has committed to substantial improvement in its management of its key infrastructural assets. As a first step it has taken on additional staff and the initial focus is on improving how its existing knowledge of the assets is incorporated into the asset registers that underpin its AMPs. The progress it is making in this area has been reflected in the revaluations performed this year. These resulted in significant revaluation movements as a result of the more detailed (component based) approach the valuer was able to take.

The District Council is also supplementing its improved staffing levels with the use of consultants. This process will provide a much better base of asset knowledge, and in particular improved ability to forecast future asset needs, for the next LTP in 2018.

#### **Recommendation**

The District Council should continue to work on improving asset management information, including addressing our recommendations from the LTP audit.

#### **Management comment**

*Agree, in progress.*

### **3.1.4 Fraud risk management**

The District Council has a fraud policy, however, the policy has not been reviewed since 2006. From enquires of both management and the Council we confirmed there are no

known or suspected frauds this year. We did not identify any concerns or issues with the attitudes towards fraud of senior management or the Council.

While the District Council has not undertaken a review of areas susceptible to fraud during the year, we understand that this is an area the District Council plans to put time and resources into going forward.

### **Recommendation**

The District Council should undertake an annual review of areas susceptible to fraud and work on bringing its fraud awareness and prevention procedures to up to date.

### **Management comment**

*Fraud risk management will be a facet of the internal control framework.*

### **3.1.5 Investment management**

Investment management is one of the themes for the Office of the Auditor-General's (OAG) work programme for 2015/16. We updated our understanding of the District Council's investment practices and policies during our audit.

The District Council has only bonds as investments and security investments. We confirmed that at year end there were no new investments made during the year. As at 30 June 2015 the District Council held bonds with Westpac (\$970k) and Civic Assurance securities (\$30k).

From our review we noted the following controls have been set up and will operate when the District Council has money to invest. These include:

- Westpac have a copy of the investment policy which they refer to when transactions occur.
- A quarterly report is provided to the Council regarding the investments. The decision to invest is driven by the specific covenants in the investment policy.
- Withdrawing money from the fund requires two signatories.

We concluded that for the size and nature of the District Council's investments there are appropriate system controls in place when to ensure adherence to the investment policy. We confirmed that there have been no significant changes to type of investments held during the year.

## **4 Areas of interest for all Local Government entities**

We identified the following areas of focus in our audit arrangements letter. Our comment concentrate on items not already commented on in another part of this report:

---

#### **4.1 Severance payments**

There were no severance payments during the year.

#### **4.2 Elected members remuneration and allowances**

We confirmed that council members were paid within the limits of the Determination and their remuneration was appropriately disclosed.

#### **4.3 Council's governance role in completion of SOI's for CCO's**

We reviewed the CCTO's SOIs and confirmed the District Council had been consulted as required.

In our audits of Hokitika Airport Limited and Westland District Properties Limited we raised the question of whether these companies were appropriately classified as CCTO's. This was because in their present operating environment they are unlikely to make a profit (which the LGA defines as the primary purpose of a CCTO) in the medium term at least.

We suggested both companies consider this matter and if appropriate, discuss any proposed change with their parent company and the council.

#### **4.4 Related party transactions and conflicts of interest**

We reviewed a sample of related party transactions and confirmed the expenditure was reasonable and appropriately disclosed.

#### **4.5 Legislative compliance.**

The Council does not have a formal mechanism in place for the identification of its legislative compliance obligation. Each manager is expected to monitor compliance with relevant legislation, however there are no formal processes in place to support them or ensure this is done.

We also confirmed the legislatively prescribed disclosures in the annual report were complete.

##### **Recommendation**

The Council should develop and adopt a formal legislative compliance policy and processes for the identification and monitoring of legislative compliance.

### **5 Internal controls**

Internal controls are the policies, procedures, and activities that are in place to provide reasonable assurance that financial and non-financial processes are effective and operate as designed. They are important because effective controls help minimise the risk of fraud or error. Refer to section 6 for the status of prior year internal control issues.

Our findings are as follows:

Core system	Findings	Management Comment
Statement of Service Performance (SSP)	<b>General Comment</b> <p>The District Council will be reporting against its new LTP in the 2015/16 year and some of these issues may not directly relate to any new measures in the 2015-25 LTP. Nevertheless, the key underlying message is still relevant; the District Council should ensure it has systems in place to report against all of its performance measures including the new mandatory performance measures. Not reporting on all measures may impact on our audit report in 2016 and beyond.</p>	<p><i>In progress and will continue to improve as systems are developed. Measures that cannot be reported have been communicated, such as losses from water systems. Satisfaction surveys will not be undertaken every year.</i></p>
	<b>Solid waste</b> <p>Our review of the system in place for monitoring compliance with resource consents found that none of the five landfills have been actively monitored throughout the year for compliance with consents.</p> <p>We also note the monthly monitoring spreadsheet for waste reduction has not been updated during the year. We understand that this is due to staffing constraints during the year, with one staff member leaving during the year. We have been advised that a new full time staff member is currently being recruited.</p> <p>The District Council disclosed its lack of monitoring during the year when reporting against these measures.</p>	<p><i>A full time solid waste officer commenced in November 2015.</i></p>
	<b>Transport</b> <p>Our review of the system for reporting the number of service requests found:</p> <ul style="list-style-type: none"> <li>Issues or faults in the transport network can be identified by the public, District Council staff, or the road maintenance contractor. The District Council only records and reports faults that are entered in to the service request system because the service request system records only customer initiated faults.</li> </ul>	<p><i>The system will be used to record all faults that are not subject to planned maintenance.</i></p>

Core system	Findings	Management Comment
	<ul style="list-style-type: none"> <li>Faults identified by the contractor or by District Council staff do not usually go through the service request system and therefore are not captured in the reporting against this measure.</li> </ul>	
Revenue	Apart from our Rates recommendations in section 2.4 of this report, the key systems and controls over the various revenue systems are operating as intended.	Agree
Expenditure	<p><b>Segregation of duties</b></p> <p>We found that currently it is possible for an employee to raise a purchase order, record goods as received, and approve the invoice for payment.</p> <p>When one person is able to perform all three of these tasks, there is a fraud risk. It is possible for that employee to purchase goods and services without an appropriate business purpose, and avoid detection. Someone independent from the person ordering the goods or services should record them as received and/or approve the invoice.</p> <p><b>Recommendation</b></p> <p>Separate responsibility for these functions so no employee is able to raise a purchase order, receive the goods, and approve the invoice.</p>	<p><i>This control will be enhanced by the implementation of a purchase order system during 2015/16</i></p>
	<p><b>Creditors masterfile review</b></p> <p>The District Council runs a monthly creditor masterfile changes report, which is meant to be independently reviewed and checked to supporting documentation. The purpose of this control is to check that all changes made are appropriate. This is important because the information in the creditors masterfile is the basis of payments made to suppliers.</p> <p>During our testing, we found that this review has not been performed for most of the year.</p> <p><b>Recommendation</b></p> <p>Independently review the creditors</p>	



Core system	Findings	Management Comment
	masterfile changes audit report on a timely basis as a check that all creditor masterfile changes are appropriate.	
Sensitive expenditure	<p>We reviewed a sample of credit cards and expense claims. We also reviewed one significant procurement as part of our sensitive expenditure testing. No issues of performance waste and probity came to our attention during our testing of sensitive expenditure.</p> <p>However, we did find during our review of the Westland Milk Products water upgrade project, that the contract was not signed off within delegated limits. From review of the Council minutes we identified that the District Council had delegated authority to the executive team to approve the project. Delegated approvals should be formally recorded and we expected to see a formal record of this approval and one member of the executive team to sign the contract on behalf of the District Council. This was not the case with the project being signed by the Engineer, Water Services.</p> <p><b>Recommendation</b> Approve contracts in line with formal delegations.</p>	<p><i>The contract was signed by the Group Manager: District Assets on behalf of the Executive Team, as delegated by Council</i></p>
Payroll	<p>Overall, the key processes and controls over payroll are operating as intended. However, we did note some areas for improvements.</p> <p>The reviewer of the payroll masterfile has access to the payroll module. To address the segregation risk we understand that someone else co-signs any reports where the reviewer has made any changes. We recommend the co-reviewer sign every report and not just reports where the reviewer has made changes. This will eliminate the risk that a report that should have been co-signed is missed.</p> <p><b>Recommendation</b> The co-reviewer should sign every masterfile change report, as evidence of their review.</p>	<p><i>This control is now in place. Payroll processing will be outsourced from December 2015. This will operate through a management portal containing approval controls.</i></p>

Core system	Findings	Management Comment
Journals	<p>Journals created by the Finance Manager are not always reviewed before posting.</p> <p><b>Recommendation</b></p> <p>Journals should be reviewed by an independent person before being posted.</p>	<p><i>This procedure will be documented as part of the internal control framework</i></p>

## 6 Status of previous recommendations

The status of each matter that was outstanding in last year's report to the District Council is summarised in Appendix 2.

Summary of action taken against previous years' recommendations:

Number of recommendations from previous years' audits	Current status
6	Matters that have been resolved
2	Progress is being made, but not yet fully resolved
7	Still outstanding
2	Updated recommendations in this report

This summary needs to be read in conjunction with the status of recommendations raised in previous years' management reports as detailed at Appendix 2.

## Appendix 1: Explanation of priority rating system

Our recommendations for improvement and their priority are based on our assessment of how far short the District Council is from a standard that is appropriate for the size, nature, and complexity of its business.

We have developed the following priority ratings for our recommended improvements:

### **Urgent**

Major improvements required

#### **Needs to be addressed *urgently***

These recommendations relate to a significant deficiency that exposes the District Council to significant risk. Risks could include a material error in the financial statements and the non-financial information; a breach of significant legislation; or the risk of reputational harm.

### **Necessary**

Improvements are necessary

#### **Address at the earliest reasonable opportunity, *generally within 6 months***

These recommendations relate to deficiencies that need to be addressed to meet expected standards of good practice. These include any control weakness that could undermine the system of internal control or create operational inefficiency.

### **Beneficial**

Some improvement required

#### **Address, *generally within 6 to 12 months***

These recommendations relate to deficiencies that result in the District Council falling short of best practice. These include weaknesses that do not result in internal controls being undermined or create a risk to operational effectiveness. However, in our view it is beneficial for management to address these.

## Appendix 2: Status of previous recommendations

The recommendations raised in our previous management reports are still valid and are being progressed. Cleared issues and outstanding issues have been summarised below:

### Matters that have been resolved

Issues	Outcome
<b>Procurement policy</b>	
Update the procurement policy with reference to OAG's guidelines.	The policy has been updated and is in line with OAG good practice guidelines.
<b>Creditor master file</b>	
The independent reviewer's access should be restricted within NCS.	Access has been removed for this individual.
<b>Sensitive Expenditure</b>	
Credit card and sensitive policy be updated for mileage and Limits.	Updates have been made. We have reviewed these and consider they are reasonable.
Address minor disclosure errors noted in 2013/14 final report.	Updated in the 2014/15 annual report.
No accrual made for sick leave	Updated in the 2014/15 annual report
<b>Breach of Liability policy</b>	
The policy requires that at least 50% of the District Council's debt in any 12 month period to be non-current.	No breach noted at year end.
<b>Revaluation of infrastructure assets</b>	
Implement the recommendations from prior year.	These recommendations have been overtaken by the recommendations in sections 1.2 to 1.2.4.
<b>Statement of service performance</b>	
Covered in section 2.4 of this report.	

## Matters still outstanding

Recommendation	Current status	Priority	Management's proposed action
<b>Update Delegations Manual</b>			
The manual is out of date and does not reflect actual practices.	Outstanding	Necessary	To be updated in 2016.
<b>Rates process</b>			
Covered in section 2 of this report.	Outstanding	Necessary	Agree.
<b>Legislative compliance</b>			
Introduce a formal legislative compliance system.	Outstanding	Necessary	Agree – to be scheduled in 2017.
<b>IT Disaster Recovery Plan (DRP)</b>			
Update the DRP plan to reflect the current situation.	Outstanding	Necessary	Planned for 2016.
<b>Review areas susceptible to fraud</b>			
Undertake a formal review.	Outstanding	Necessary	Internal control framework.
<b>Land fill provision</b>			
Provide information to support the landfill inputs.	Outstanding	Necessary	This was not queried during the audit.
<b>Assets disposal</b>			
<ul style="list-style-type: none"> <li>Introduce formal process for disposed assets.</li> <li>Perform a physical stocktake.</li> </ul>	Outstanding	Beneficial	<p>In progress.</p> <p>In progress.</p>
<b>Sale of Council assets to staff</b>			
Establish formal processes.	Progress	Beneficial	Agree.
<b>Receipt of year-end financial information from Council's CCO</b>			
Request draft financial information from the CCOs at an earlier date.	Progress	Beneficial	The information was requested in good time but was not available due to substantial changes in the group.

## Appendix 3: Mandatory 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 reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001. The audit of the financial statements does not relieve management or the District Council of their responsibilities.</p> <p>Our audit engagement letter contains a detailed explanation of the respective responsibilities of the auditor and the District Council.</p>
Auditing standards	<p>We carry out our audit in accordance with generally accepted audit standards. The audit cannot and should not be relied upon to detect every instance of misstatement, fraud, irregularity or inefficiency that are immaterial to your financial statements. The District Council and management are responsible for implementing and maintaining your systems of controls for detecting these matters.</p>
Auditor independence	<p>We confirm that, for the audit of the District Council's financial statements for the year ended 30 June 2015, we have maintained our independence in accordance with the requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.</p> <p>Other than the audit, we have not provided any engagements for the District Council during the year ended 30 June 2015. In addition, we have no relationships with, or interests in, the District Council.</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 District Council 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 District Council during or since the end of the financial year.</p>
Unresolved disagreements	<p>We have no unresolved disagreements with management about matters that individually or in aggregate could be significant to the financial statements. Management has not sought to influence our views on matters relevant to our audit opinion.</p>

# EXECUTIVE COMMITTEE WORK PLAN 2014-15

Item	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15
External Audit	Interim Audit Management Report		Draft Annual Report	Audit Annual Report <b>Audit Director meet Exec Committee</b>	Audit Management Report				LTP Audit Hot Review <b>Audit Director meet Exec Committee</b>	Letter of Engagement 2015-16	Review Audit Management Reports	Interim Audit Annual Report
											LTP Audit	
Annual Report		Heads up on EOY Result	Review Annual Report									
CE Performance Review			Annual PR						6-Month PR			
CCO's		Feedback on WDPL Due Diligence	Full Year Reports	Special Consultative Procedure on disestablishing WDPL & WHL?	AGM's Director Appointment Policy Review			Draft Statement of Intents due end Feb	Half Year Reports			
Insurance		- Valuation Information - LAPP Review			Review of Assets to be Insured							Renewal
Risk Management Framework		Review Risk Register		Review Risk Management Policies & Procedures						Review Risk Management Policies & Procedures		
				Review Risk Register						Review Risk Register		
Internal Control Framework			Review Current Policies & Procedures					Confirm Internal Control Framework				Internal Audit
								Budget for Internal Audit				
Long Term Plan								Review LTP Budgets				
Legislation												
Informal and Formal Meetings		<b>Informal Meeting</b> 14 Aug	<b>Informal Meeting</b> 11 Sept 9am-10am <b>Meeting with Stakeholders</b> 1pm-3pm then a/tea.	<b>Formal Meeting</b> 16 Oct 11.00 am	<b>Informal Meeting</b> 5 Nov 3.30 pm	<b>Formal Meeting</b> 4 Dec 9.00 am		<b>Informal Meeting</b> 9-13 Feb - TBC	<b>Formal Meeting</b> 9-13 Mar - TBC			
Note:				<b>Audit here 6-24 Oct.</b>								