

Agenda

**Notice is hereby given of
an Audit and Risk Committee Meeting**

Monday 12 March 2018

Commencing at 9.00am

Council Chamber
Waimate District Council
125 Queen Street
Waimate

www.waimatedc.govt.nz

Notice is hereby given that a meeting of the Audit and Risk Committee will be held in the Council Chamber, Waimate District Council, 125 Queen Street, Waimate, on Monday 12 March 2018, Commencing at 9.00am.

Committee Membership

Sheila Paul	Deputy Chairperson
Craig Rowley	Mayor
David Anderson	Councillor
Jakki Guilford	Councillor

Quorum – no less than five members

Local Authorities (Members' Interests) Act 1968

Councillors are reminded that if they have a pecuniary interest in any item on the agenda, then they must declare this interest and refrain from discussing or voting on this item and are advised to withdraw from the meeting table.

Significance Consideration

Evaluation: Council officers, in preparing these reports have had regard to Council's Significance and Engagement Policy. Council and Committee members will make the final assessment on whether the subject under consideration is to be regarded as being significant or not. Unless Council or Committee explicitly determines that the subject under consideration is to be deemed significant then the subject will be deemed as not being significant.

Decision Making

The Council, in considering each matter, must be:

- i. Satisfied that it has sufficient information about the practicable options and their benefits, costs and impacts, bearing in mind the significance of the decision;
- ii. Satisfied that it knows enough about and will give adequate consideration to the views and preferences of affected and interested parties bearing in mind the significance of the decisions to be made.

Stuart Duncan
Chief Executive

Order Of Business

Opening	5
1 Apologies	5
2 Visitors	5
3 Conflicts of Interest	5
4 Identification of Major (Urgent) or Minor Items Not on the Agenda	5
Minutes	6
5 Confirmation of Minutes.....	6
5.1 Minutes of the Audit and Risk Committee Meeting held on 4 December 2017	6
Reports	10
6 General Reports.....	10
6.1 Action Point Report	10
6.2 Health and Safety Report	12
6.3 Council Policy Suite	15
6.4 Deloitte Review of LTP Budgetary Approach.....	18
6.5 Audit New Zealand Management Report for the year ended 30 June 2017.....	35
6.6 Discussion with Council's Auditors - 10.30am	52
Public Excluded	53
7 Exclusion of the Public Report	53
7.1 Public Excluded Minutes of the Audit and Risk Committee Meeting held on 4 December 2017.....	53
7.2 Public Excluded Action Point Report	53
7.3 Presentation - JLT Group Ltd - 11.30am	53
7.4 Public Excluded Leave Liability	53
8 Re-admittance of the Public Report.....	54
Meeting Closures	54

OPENING

1 APOLOGIES

2 VISITORS

- i. 10.30am Audit NZ
- ii. 11.30am JLT Ltd

3 CONFLICTS OF INTEREST

4 IDENTIFICATION OF MAJOR (URGENT) OR MINOR ITEMS NOT ON THE AGENDA

MINUTES**5 CONFIRMATION OF MINUTES****5.1 MINUTES OF THE AUDIT AND RISK COMMITTEE MEETING HELD ON 4 DECEMBER 2017**

Author: Karalyn Reid, Committee Secretary and PA to the Mayor

Authoriser: Andy Hilton, Corporate Services Manager

Attachments: 1. **Unconfirmed Public Minutes of the Audit and Risk Committee meeting - 4 December 2017**  

The unconfirmed Minutes of the Audit and Risk Committee Meeting held on 4 December 2017 are presented for confirmation.

RECOMMENDATION

1. That the Minutes of the Audit and Risk Committee Meeting held on 4 December 2017 be confirmed as a true and correct record

Unconfirmed Public Minutes of the Audit and Risk Committee meeting of the Waimate District Council held at 125 Queen Street, Waimate on Monday 4 December 2017, beginning at 9.02am.

Present

Chair: Stephen Halliwell

Mayor: C Rowley

Councillors (Committee): D Anderson, J Guilford, S Paul

Councillor (Non-Committee): P Collins

In Attendance

Chief Executive: S Duncan

Managers: A Hilton; M. Jones

Committee Secretary: K Reid

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- | | | |
|----------|---|---|
| 1 | Apologies | No apologies were received. |
| 2 | Conflicts of Interest | The Chair called for Conflicts of Interests. There were no Conflicts of Interests declared. |
| 3 | Identification of Major (Urgent Business) or Minor Items not on the Agenda | The Chair called for Major or Minor Items not on the Agenda. There were no major (urgent business) or minor items identified. |
| 4 | Confirmation of Minutes – Audit and Risk Committee Meeting | <p>Resolved:
That the minutes of the Audit and Risk Committee meeting held on Monday 16 October 2017, excluding the public excluded items, are confirmed as a true and correct record.</p> <p>Moved Mayor Rowley
Seconded Cr Paul
MOTION CARRIED</p> |
| 5 | Health and Safety Report | <p>Resolved:
That the Human Resources Manager's report is accepted.</p> <p>Moved Mayor Rowley
Seconded Cr Guilford
MOTION CARRIED</p> <p>Note:
The Committee asked that the public Audit and Risk agendas in future be emailed to other Councillors for their information.</p> <p>Action Point:
The Committee asked the Chief Executive to report on Staff Outstanding Annual Leave in public excluded at the next meeting.</p> <p>The Committee asked to check when the last review of the Health & Safety Manual was undertaken, compliance with the annual and ongoing management plan and implementation, i.e., less tick-box and more about culture of keeping people safe.</p> |

- 6 Action Points Report** **Resolved:**
That the Action Points report is accepted.
Moved Cr Anderson
Seconded Cr Paul
MOTION CARRIED
- 7 Review of Audit Engagement Letter – Consultation Document & Long Term Plan 2018-28** **Resolved:**
That the Review of Audit Engagement Letter – Consultation Document & Long Term Plan 2018-28 report is accepted; and
That the Audit and Risk Committee recommends to the Environmental Services and Finance Committee meeting on 5 December 2017 that the Mayor be authorised to sign the Audit New Zealand Audit Engagement Letter and return it to Audit New Zealand.
Moved Cr Anderson
Seconded Cr Guilford
MOTION CARRIED
Note:
Correction to letter: 3.5 Self-assessment: Completion date is by 15 December, not 30 November 2017 (see 6.1 Audit Timing)
Action Point:
The Committee asked that the Auditor visit and talk to the Committee in March.
- 8 Consideration of Major (Urgent Business) or Minor Items not on the Agenda** There were no major (urgent business) or minor items identified.
- 9 Exclusion of the Public** Council considered moving into public excluded to take the below items:
- i Confirmation of Minutes: Audit and Risk Committee meeting – Monday 16 October 2017
 - ii Key Risk Register – Quarterly Update (December 2017)
 - iii Internal Review Proposal – Cyber Security Current State Analysis

General Subject of each matter to be considered	Reason for passing this resolution	Ground(s) under Section 48(1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution
Confirmation of Public Excluded Minutes - Audit and Risk Committee	Good reason to withhold exists under Section 7	7(2)(c)(i)(ii) The withholding of the information is necessary to protect information, which is subject to an obligation of confidence.
Key Risk Register – Quarterly Update (December 2017)	Good reason to withhold exists under Section 7	7(2)(c)(i)(ii) The withholding of the information is necessary to protect information, which is subject to an obligation of confidence.
Internal Review Proposal – Cyber Security Current State Analysis	Good reason to withhold exists under Section 7	7(2)(c)(i) Protect information where the making available would be likely to prejudice the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied.

Resolved:

That Council resolves to exclude the public from the following parts of the meeting on the grounds contained in section 48(1) of the Local Government Official Information and Meetings Act, or section 6 or section 9 of the Official Information Act 1982, as the case may require, which would be prejudiced by the holding of the whole or the relevant part of the proceedings of the meeting in public.

Moved Mayor Rowley
 Seconded Cr Paul
 MOTION CARRIED

There being no further business, the Chair declared the meeting closed at 11.44am. These minutes to be confirmed at the Audit and Risk Committee meeting to be held on Monday 12 March 2018.

 Stephen Halliwell
 Chair

REPORTS**6 GENERAL REPORTS****6.1 ACTION POINT REPORT**

Author: Michelle Jones, Executive Support Manager

Authoriser: Stuart Duncan, Chief Executive

Attachments: 1. Action Point Report [↓](#) 

To present the Audit and Risk Committee with the current status of Action Points from prior meetings.

RECOMMENDATION

That the Action Point Report be accepted.

Action Point	Status	Comment
16 October 2017 – Audit and Risk Committee		
Draft Annual Work Plan: The Chief Executive agreed to prepare a Policies Programme and Internal Audit Programme for future Audit and Risk Committee meetings	In progress	<p>Policies Programme</p> <p>Refer to the separate report included in the agenda.</p> <p>Internal Audit Schedule</p> <p>A proposed Internal Audit Schedule will be presented at the June 2018 meeting.</p>
4 December 2017 – Audit and Risk Committee		
Health & Safety Report: The Committee asked the Chief Executive to report on staff outstanding annual leave in public excluded at the next meeting.	Completed	A separate report is included in the Public Excluded section of the agenda.
4 December 2017 – Audit and Risk Committee		
Health & Safety Report: The Committee asked to check when the last review of the Health & Safety Manual was undertaken and implementation, i.e. less tick-box and more about culture of keeping people safe.	Completed	A response is included in the separate Health & Safety report.
4 December 2017 – Audit and Risk Committee		
Review of Audit Engagement Letter: The Committee asked that the Auditor visit and talk to the Committee in March.	Completed	Scott Tobin from Audit New Zealand will join the Committee at 10.30am on 12 March 2018.

6.2 HEALTH AND SAFETY REPORT

Author: Fiona Hester-Smith, Human Resources Manager

Authoriser: Stuart Duncan, Chief Executive

Attachments: 1. Health and Safety Report [!\[\]\(7f8d804c6d199749d3dd53592a5ca12b_img.jpg\)](#) 

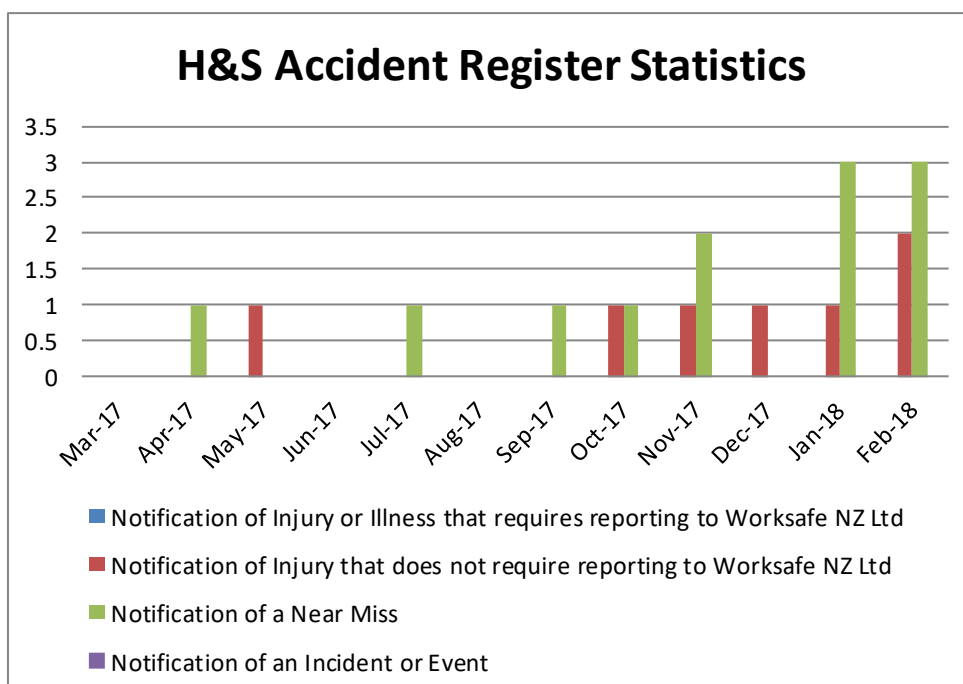
The Health and Safety Report is submitted for the information of the Audit and Risk Committee.

RECOMMENDATION

That the Health and Safety Report is accepted

Health and Safety

Health and Safety Statistics



- 1 Since my last report of 4 December 2017 to the Audit and Risk Committee, the following Near Misses and Accidents have been received.
 - 8 Near Misses
 - 5 Accidents that do not require reporting to Worksafe NZ Ltd.
- 2 The accidents were minor and did not require medical treatment.

Update from Questions from Meeting 4 December 2017

Health and Safety Manual

- 3 Council's Health and Safety Manual was approved by Chief Executive, Stuart Duncan in February 2017. We are currently reviewing the entire manual, which should be complete by June March 2018. Any updates will be re-distributed to all staff.
- 4 The Risk/Hazard register, which is a separate document is currently being reviewed. This review will be complete by June 2018 and an updated register will be distributed to all staff.
- 5 At new staff member's induction, they are required to read both documents and sign a separate form to confirm that they have read, understand and will abide by Council's Health and Safety rules and regulations. Separate in-house training is provided to our temporary employees, such as the Pool Attendants by the Parks and Reserves Manager. There is a Health and Safety Manual available in all sites as a reference for staff as well.

Emergency Evacuation Practice

- 6 Every six months we are required to hold an emergency evacuation practice. Our last practice was on 20 December 2017. Our next practice will be in June 2018. Our emergency evacuation practices are carried out for the Local Government Building and the Event Centre.

Personal Protection Equipment (PPE)

- 7 Every employee at Council is provided with appropriate PPE, this includes our volunteers.

Health and Safety Culture

- 8 97% of staff have completed formal “Essential Training for Health and Safety Representatives – Stage One” through Canterbury Employers’ Chamber of Commerce. This training gives them the foundation training for knowledge of the Health and Safety at Work Act and what is expected of them and why.
- 9 We are continually reminding staff of the need to comply with Health and Safety rules and regulations. This is done in various ways such as emails to staff, stand up meetings, staff meetings, the distribution of the Health and Safety Committee meeting notes and random spot checks. The Health and Safety Manual also confirms our expectations and encourages a positive Health and Safety Culture.

Vaccination Project

- 10 We are currently in the middle of this project. We are confirming with medical practitioners what vaccinations the staff that are considered at risk currently have. This is with regard to Tetanus and Hepatitis Vaccinations A and B for those staff that could be exposed to risk. To date most staff have current Tetanus and for those that have not already received vaccinations for Hepatitis this is being organised.

6.3 COUNCIL POLICY SUITE

Author: Stuart Duncan, Chief Executive

Authoriser: Stuart Duncan, Chief Executive

Attachments: 1. Waimate District Council Policy Index [!\[\]\(2c3352433bff267ed8ae00945ed009eb_img.jpg\) !\[\]\(069c83240c095fe7767b7327eef55806_img.jpg\)](#)

BACKGROUND

1. The Audit and Risk Committee requested an update on Council's policy suite.
2. Following the investigation of Council's current policy suite there are a number of findings, which the Committee should be aware of:
 - a. Each member of the leadership team has been contacted and submitted their thoughts on policies for each function of Council under their control.
 - b. SOLGM was contacted to provide a list/register of statutory policies for Territorial Authorities. SOLGM confirmed that no such policy checklist exists.
 - c. A number of current policies are overdue for review.
 - d. There is no education programme to employees on the understanding of specific policies.
 - e. Not all policies the organisation has written are included in the policy index as the policy office was unaware of them.
 - f. Management identified additional policies that need to be written. Some are in the area of cyber security and human resource.

PROPOSAL

3. The policy index to be amended to:
 - a. Include all policies that the organisation has so they are held in one place and updates are managed in a strategic manner.
 - b. Include new policies that Council should have as identified by management.
 - c. Plan to present all policies to Council for approval by the end of December 2018.
4. Make all employees aware of the Council policy suite during the recruitment process (employee handbook), and ensure all policies are readily available and all employees know how and where to access the documents.

RECOMMENDATION

That the Council Policy Suite Report is accepted

Waimate District Council Policy Index

Code	Policy	Departmental Responsibility (Legislation)	Review Date
200 Series - Democracy			
201	Standing Orders	CE (LGA cl 27 sch 7)	October 2019
202	Code of Conduct	CE (LGA cl 15 sch 7)	November 2016
203	Governance Statement	CE (LGA s 40)	April 2017
204	Triennial Agreement	CE (LGA s 15)	March 2017
300 Series – General Council Policies			
301	Significance and Engagement Policy	Community and Strategy LTP (LGA sch 10)	November 2017
305	Gambling Venue Policy	Regulatory and Compliance	October 2017
306	Dog Control Policy	Regulatory and Compliance (Dog Control Act)	June 2017
307	Credit Card Policy	Corporate Services	May 2020
308	Delegations Policy	Corporate Services	June 2018
309	Tab Board Venue Policy	Regulatory and Compliance	October 2017
310	Elected Members Reimbursement and Expenses Policy	Corporate Services (LGA cl 6 sch 7)	June 2019
311	Fraud Policy	Corporate Services	August 2019
312	Smoke-free Environments Policy	Community and Strategy	December 2018
313	Dangerous Buildings Policy	Regulatory and Compliance (Building Act)	December 2022
314	Psychoactive Substances Local Approved Products Policy	Regulatory and Compliance (Psychoactive Substances Act)	September 2019
315	Insanitary Buildings Policy	Regulatory and Compliance (Building Act)	December 2022
316	Procurement Policy	Corporate Services	October 2018
317	Unmanned Aircraft Policy	Asset Group (CAA Rules)	March 2019
318	Subdivision Recreation Reserve Contribution Fund Policy	Corporate Services	February 2020
319	Social Media Policy	Community and Strategy	In development
320	Vehicle Use and Monitoring Policy and Procedures	Corporate Services	June 2020

400 Series – Financial Policies			
401	Revenue and Financing Policy	Corporate Services LTP (LGA sch 10)	June 2018
402	Liability Management Policy	Corporate Services	March 2018
403	Investment Policy	Corporate Services	June 2018
404	Financial Contributions Policy	Corporate Services	June 2018
406	Remission and Postponement of Rates on Maori Freehold Land Policy	Corporate Services	June 2021
407	Rates Remission Policy	Corporate Services	June 2018
408	Rates Postponement Policy	Corporate Service	June 2021
410	Property and Land Sale, Purchase and Lease Policy	Regulatory and Compliance	August 2017
500 Series – Infrastructure Policies			
501	Dust Suppression Policy	Asset	June 2018
600 Series – Staff and Internal Policies			
603	Building Security Policy & procedures	Human Resources	September 2017
604	Drug and Alcohol Policy	Human Resources	To be finalised
605	Health and Safety Policy	Human Resources	Due for significant amendments
608	Internet Usage Policy	Corporate Services	Due for review, in staff handbook
609	External Email Usage Policy	Corporate Services	Due for review, in staff handbook
611	Stress Policy	Human Resources	To be incorporated into Health and Safety Policy
613	Personal Records Policy	Human Resources	Due for review
614	Protected Disclosure Policy and Procedures	Human Resources	September 2019
615	Sun Protection Policy	Human Resources	Due for review, in staff handbook

6.4 DELOITTE REVIEW OF LTP BUDGETARY APPROACH

Author: Andy Hilton, Corporate Services Manager

Authoriser: Andy Hilton, Corporate Services Manager

Attachments: 1. Deloitte - Review of LTP Budgetary Approach Feb 2018  

PURPOSE

1. This report provides the Committee with the final report from an independent third party regarding the approach taken by Council in employing its new Long Term Planning financial modelling system. The report intends to provide additional assurance given this is the first instance the system has been used by staff to deliver Council's budgets.

BACKGROUND

2. Council approved the purchase of the Magiq Performance system in March 2017, in order to address the risks identified with the incumbent model.
3. Included in the approval was the requirement for independent quality assurance regarding the implementation of the model.
4. The system has been implemented within approved budget and is now Council's primary basis for Long Term Plan financial budgeting and reporting.

PROPOSAL

5. That the Committee accepted the "Deloitte Review of LTP Budgetary Approach" and,
6. The Committee review the management responses and approve or propose modifications to the approach laid out by staff.

ASSESSMENT OF SIGNIFICANCE

7. This matter is not deemed significant under Council's Significance and Engagement Policy.

CONSIDERATIONS**Risk**

8. The financial reporting and budgeting system is central to the effective and efficient running of Council. This review of the budgetary approach of Council contributes to assuring the organisation that the risks associated with a complex system implementation are within tolerance.

FINANCIAL**Budget**

9. The cost of the LTP model implementation, including this independent quality assurance report, falls within budgeted limits.

Cost-effectiveness

10. Deloitte were selected to deliver this report because
 - a. they are already familiar with our existing financial and organisational environment having reviewed or incumbent model in early 2017 and,
 - b. they could supply the requisite expertise to undertake the review.

RECOMMENDATION

1. That the Deloitte Review of LTP Budgetary Approach report is accepted; and
2. That the Audit and Risk Committee review the management responses and approve or propose modifications to the approach laid out by staff.



Waimate District Council

Review of Long Term Plan Budgetary Approach

February 2018

Contents

1. Introduction	3
2. Executive Summary	4
3. Detailed Findings	6
Appendix A – Rating Scale	14

1. Introduction

1.1. Background

Waimate District Council ("the Council") has traditionally used Excel spreadsheets for performing a significant part of its Long Term Plan (LTP) process. The Council has recently recognised that a different approach was required both in terms of efficiency (both cost and time wise), and for the ability to provide the Council with sufficient comfort around the reliability of the complex calculations and accuracy of the figures presented in the Long Term Plan Consultation Document.

Accordingly, during 2017, the Council implemented a new module of the NCS system called "Performance", which effectively replaced the calculations previously performed in Excel.

The LTP has to be finalised by the end of the Council Fiscal Year (30 June 2018). As such, the Council commissioned Deloitte to undertake a review of the controls and processes in place within the NCS budget module (i.e.: Performance) used in calculating the LTP.

1.2. Objective and Scope

The detailed objectives, scope and approach for this review were agreed in the Engagement Letter dated 11 December 2017.

The intent of the review was to identify any potential shortfalls in the LTP budgetary approach. Specifically, the key objectives of this review were to:

- Review the LTP processes and controls within the NCS budgetary module – NCS Performance. This included understanding the overall process followed for generating the LTP, and conducting a high level sense check of key areas such as assumptions, business rules and system configuration;
- Review the mapping used to align the output of the system with the information contained in the LTP.
- Review an agreed set of overarching controls (i.e.: NCS password settings) around the LTP process.

1.3. Out of scope

The review focused only on the processes and controls of NCS Performance and the information contained within the LTP. In particular, we have not reviewed or evaluated:

- The completeness or accuracy of the information feeding into NCS Performance;
- The adequacy of all the business rules defined in NCS Performance, which are used for generating the LTP; and
- Controls and procedures in place to ensure the data is substantially correct and free from manipulation before it is entered into NCS Performance.

1.4. Use of this Report

The matters raised in this report are only those that came to our attention during the course of our review and are not necessarily a comprehensive statement of all the weaknesses that may exist or all improvements that could be made.

This report has been prepared solely for the use of the Council and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose.

The procedures performed do not constitute an assurance engagement in accordance with New Zealand Standards for Assurance Engagements, nor represents any form of audit under New Zealand Standards on Auditing.

2. Executive Summary

As part of our review of the Council's LTP process, we observed and discussed the functions, processes and controls of NCS Performance with Melissa Thomson (Accountant) and Andy Hilton (Corporate Services Manager).

The new system is definitely a clear step in the right direction for the Council in terms of achieving greater accuracy, completeness and efficiency in completing the budget and LTP. Areas of strength included:

- Simple process to update the budget and LTP via importing data from NCS Enterprise;
- The finance team had a good understanding of the system, considering the implementation of NCS performance was only a few months ago;
- Supporting research for assumptions have been well documented and approved by the Council;
- NCS performance notifies the user if assumptions are broken and forces the user to correct the issue before proceeding;
- Business rules can be easily applied to multiple periods; and
- Cannot double up on account codes in NCS Performance.

During our review of the budgetary process, a number of areas where improvements could be made were identified. In most cases, these relate to a lack and/or limitation in the functionality of the NCS Performance system, and lack of formal documentation.

It is important to note that whilst we have been identified a number of improvement areas, our testing has not identified any material impacts on the accuracy and completeness of the LTP. However, addressing these areas of improvement moving forward will ensure a greater level of accuracy and efficiency around the reporting of the budget and LTP, as well as improved controls and security.

2.1. Summary of Observations

The key findings arising from our review are set out below (all findings classified as Moderate risk or higher). We have included detailed recommendations in Section 3 of this report:

- **System functionality** – The NCS Performance system implemented is a significant improvement on the numerous excel spreadsheets previously used in generating the LTP. However, there are various improvement areas that should be addressed, including:
 1. The system does not warn the user of an out of balance entry;
 2. The absence of an error message when a business rule is broken (eg: by typing a letter in the formula or by making reference to a field that doesn't exist) may lead to incomplete or inaccurate data in the LTP; and
 3. There is the potential for over depreciating assets based on the simplistic nature of the system (ie: it only allows straight-line depreciation).
- **Security** – The system has the ability to log business rules changes, however this function is currently not working. MagiQ (NCS Performance vendor) noted that this could be due to either the functionality not being turned on, or the system not working properly.

Risk Rating*	Very High	High	Moderate	Low	Process Improvements
	0	0	4	6	1

*Please refer to Appendix A for a detailed description of the rating scale.

Waimate District Council | Review of Long Term Plan Budgetary Approach

Category	Ref.	Finding	Rating
System functionality	3.1	The system does not warn the user of an out of balance entry	
System functionality	3.2	No warnings when business rules are broken	
Security	3.3	Logging functionality is not working	
System functionality	3.4	Potential for over depreciating assets	
System Functionality	3.5	Cost centre performance could be misrepresented	
System functionality	3.6	Potential for minor errors in the output	
Documentation	3.7	Trees and business rules are only partially documented	
Security	3.8	Password settings not up to standard	
Security	3.9	Access to sensitive folders should be limited	
Coding Structure (Tree)	3.10	Numerous Trees make the LTP output harder to maintain	
GL Data	3.11	Potential for missing information during data transfer	

3. Detailed Findings

3.1. The system does not warn the user of an out of balance entry

Risk Rating	Moderate
Ease of Fix	Medium
Observations	<p>We noted that the application does not conform to the basic rule of double entry bookkeeping i.e. one-sided journals can be processed in the system. In particular:</p> <p>Business rules are the formulas that calculate the output of each account code. So when a journal is made to one or more account codes that do not have the ability to process journals, the output may be one sided (put an account out of balance) or be entirely ignored by the system (miss the data).</p> <p>In the event that the situations described above do occur, no warning or notification is raised by the system.</p> <p>This observation was confirmed with Chris Benson (NCS help desk), who stressed the point that it is the users' responsibility to understand what they are doing before they process any journals.</p>
Risks	<p>One-sided journals could potentially put the trial balance and balance sheet out of balance.</p> <p>Data may not be complete or accurate due to journals not being processed by the system because journal functionality is not included in all business rules by default.</p>
Recommendation	<p>In a first instance, due to the limitations of the system, we recommend adding the journal functionality to all business rules. This will act as a safe guard to ensure all journals are accounted for completely and accurately and will ensure that the trial balance and balance sheet remain in balance.</p> <p>Additionally, we suggest the following recommendations are considered and implemented where possible:</p> <ul style="list-style-type: none"> • Limit journal rights to certain users with the appropriate skill/knowledge in relation to the fundamentals of accounting; • Keep manual journals to a minimum (to reduce any risk associated with manual data entry); and • Request MagiQ (NCS Performance vendor) consider enhancing the functionality of the system, and enforce double entry accounting within the application – Note this could take some development time, hence why this finding has been rated as "Ease of Fix: Medium".
Management Response	<p>The journal functionality is only available to the Finance team and as such meets the minimum requirement of ensuring appropriately skilled persons have access to the system.</p> <p>We will discuss the enhancement with MagiQ. We are not in a position to estimate when/if an appropriate fix would be applied by the vendor.</p>
Person Responsible	Andy Hilton - CSM
Due By	Subject to vendors timelines

Waimate District Council | Review of Long Term Plan Budgetary Approach

3.2. No warnings when business rules are broken

Risk Rating	Moderate
Ease of Fix	Medium
Observations	<p>Business rules are formulas created manually by users in a format similar to excel. They can be copied and applied to multiple account codes and periods, and are a key component of the LTP process.</p> <p>We noted that the system:</p> <ul style="list-style-type: none"> • Does not notify the user if the business rule is broken (eg: by typing a letter in the formula or by making reference to a field that doesn't exist), which can lead to partial, incorrect or no output at all; • Will still calculate an output when a business rule includes a broken part in the formula, as long as that part is not active in the calculation; and • When a broken part of the business rule is used in the calculation, the system generates a nil output (zero) rather than an error message. <p>If the business rule is a continuation of the prior year result, then the chain will be broken and all future calculations will result in no output (zero).</p>
Risks	The absence of any kind of system warning due to broken business rules could lead to incomplete or inaccurate data flowing into the LTP, which may or may not be noticed by the users depending on the extent of the issue.
Recommendation	<p>An overall sense check should be performed on all business rules to check that they are working as intended. Melissa Thomson (Accountant) has set up the majority of the business rules, so it would make sense for an independent person like Andy Hilton (Corporate Services Manager), who has a good understanding of the system and the way the Council runs to review them.</p> <p>Request MagiQ to enhance the functionality of the system so that it warns the user when a business rule is broken.</p>
Management Response	<p>We agree that a thorough review of all business rules by the CSM is appropriate. Indirect reviews have been undertaken when reviewing the overall output of the model, and comparing to expectations.</p> <p>In order to give Council assurance of the completeness of the rules, the CSM will undertake a full review on 8 March 2018 prior to finalisation of LTP financials.</p>
Person Responsible	Andy Hilton – CSM
Due By	9 March 2018

3.3. Logging functionality is not working

Risk Rating	Moderate
Ease of Fix	Medium
Observations	<p>We noted that although the "NCS Performance" system has the ability to record the date and the user that made the last change to a business rule, currently this functionality is not working.</p> <p>MagiQ noted that this could be due to either the functionality not being turned on, or the system not working properly.</p>
Risks	If business rules are modified, it would not be possible to determine who made the change or when it was made. This leads to a lack of accountability.
Recommendation	<p>We recommend that at a minimum, the Council request MagiQ to enable the following fields within the Performance system: "Modified By", and "Modified Date".</p> <p>Further, the Council should consider the implementation of a report within Performance (similar to those available within Enterprise), that highlights any change made to any of the rules. The report should clearly show the previous and new values, as well as the user that made the change as well as the date and time.</p>
Management Response	We have asked MagiQ to investigate and ensure the functionality is in place.
Person Responsible	Melissa Thomson – Accountant / MagiQ - Vendor
Due By	TBC by vendor

3.4. Potential for over depreciating assets

Risk Rating	Moderate
Ease of Fix	Simple
Observations	<p>We noted that due to a system limitation, a straight-line depreciation method is applied to all new assets loaded after the initial system set up.</p> <p>This is not good accounting practice due to the following:</p> <ul style="list-style-type: none"> • The assets that do not have a disposal amount and date recorded, can potentially be over depreciated; • All assets are assumed to depreciate to nil and then written off, which may not be the case in reality; and • All assets are depreciated according to an assumption applied to each asset group rather than each asset.
Risks	<p>Data may not be accurate or correctly reflect the reality, due to over depreciating assets and only being able to depreciate on a straight-line basis.</p> <p>Due to the sum of fixed assets held by the Council, the shortfalls may collectively cause depreciation to be materially incorrect or overstated, potentially influencing broader aspects of the council e.g. rates.</p>
Recommendation	<p>Users entering new assets that are being purchased and sold within the 10-year LTP cycle need to ensure the disposal amount and date are included in the global input sheet.</p> <p>Additionally, the following assumptions should be disclosed within the published LTP:</p>

	<ul style="list-style-type: none"> • Single depreciation rates are applied across each group of assets; • The use of straight-line depreciation for assets; and • That assets are depreciated to nil and then written off.
Management Response	The number of assets bought & sold in the 10 year period is limited, limiting the risk. This only applied to capital expenditure over the 10 year LTP – assets owned and in our asset ledger as at 1.7.18 have been depreciated correctly (ie SL or DV and do not over depreciate). We will review the materiality of the issue and consider, in conjunction with AuditNZ, appropriate changes to our LTP disclosure.
Person Responsible	Andy Hilton – CSM
Due By	9 March 2018

3.5. Cost Centre performance could be misrepresented

Risk Rating	Low
Ease of Fix	Simple
Observations	<p>Cost Centres are affected by two components: Assumptions (eg: inflation rate and interest rates), and manual journals.</p> <p>For Cost Centres to be correct, the journals need to be correct and processed completely, and the assumptions applied to each group of internal accounts (eg: internal rent) need to be consistent (i.e. all internal rent codes should apply the same assumption for an implied inflation rate).</p> <p>During the review we ran a report to check that all internal account codes balanced, and noted that the output did not offset to nil as expected. Note that this was corrected at the time of the testing.</p>
Risks	If the internal account codes do not balance, cost centre performance may be overstated or understated, potentially influencing broader aspects of the council e.g. rates.
Recommendation	<p>We recommend creating an internal tree report to confirm that internal account codes balance to nil.</p> <p>If possible, apply assumptions to a group of internal account codes, rather than to each account code to ensure consistency.</p>
Management Response	Our checks have determined that all the internal accounts net to nil; our reporting outputs have a check applied that allows us to verify nil status. We can provide additional evidence as required.
Person Responsible	Melissa Thomson – Accountant
Due By	Complete

3.6. Potential for minor errors in the output

Risk Rating	Low
Ease of Fix	Simple
Observations	<p>For the preparation of profit and loss budgets, NCS Performance treats negative inputs (credits) as income and positive inputs (debits) as expenses.</p> <p>However, the system allows for credits in expense codes and debits in income codes, which could give rise to inaccurate reporting. Responsibility falls on staff members inputting budgets to check for accuracy. A number of these staff members do not have financial backgrounds.</p>
Risks	Data included within the LTP may be incorrect or misleading.
Recommendation	<p>We recommend that:</p> <ul style="list-style-type: none"> • The ability to code credits into expense codes and debits into income codes be disabled; and • Non-finance managers are made aware of the difference between negative and positive inputs on the LTP. <p>Additionally, a system check or warning should be implemented to warn the user if any budget inputs are the opposite to what is expected for each account type.</p> <p>Note: The rating of this finding is Low due to the additional checks that Finance has in place to ensure the completeness and accuracy of the LTP (eg: the LTP output is reviewed by the Finance team and Cost Centre managers, at which point any material variance would be identified).</p>
Management Response	This is a function of the system which we believe we have the appropriate controls in place to mitigate the risk (as noted in the recommendation).
Person Responsible	Andy Hilton – CSM
Due By	Complete

3.7. Trees and business rules are only partially documented

Risk Rating	Low
Ease of Fix	Simple
Observations	<p>There are 4 key components that are required for generating a LTP. These are Assumptions (e.g. inflation estimates, etc.), GL Data, business rules, and the coding structure to be used (referred to as the "tree"). Trees are made up of account codes that are grouped together to create structured reporting for budgeting and the LTP.</p> <p>We noted that currently, business rules and trees, have not been formally documented outside of the "NCS Performance" system.</p>
Risks	<p>The lack of a formal document that describes the tree and business rules configured within the "NCS system" provides no base of comparison to which the configuration could be reviewed to ensure the accuracy of the LTP.</p> <p>Any issues with the tree and/or business rules configuration may not be detected, potentially generating an inaccurate and /or incomplete LTP.</p>

Waimate District Council | Review of Long Term Plan Budgetary Approach

Recommendation	We recommend that the tree and business rules are formally documented, reviewed and approved by the Council for future reference. Any update to these within the system should also be reflected in the documentation as soon as practicable.
Management Response	We are continually reviewing the documentation of trees and business rules, as these are dynamic. At the time of writing, partial documentation is in place and will be further developed in due course.
Person Responsible	Melissa Thomson – Accountant
Due By	30 June 2018

3.8. Password settings are not up to standard

Risk Rating	Low															
Ease of Fix	Simple															
Observations	<p>“NCS Enterprise” is the GL system that feeds the account information into “NCS Performance” where the LTP is effectively put together.</p> <p>We noted that “NCS Enterprise” does not use Windows Active Directory Single Sign On (SSO) as “NCS Performance” does. Rather, it uses the password settings from the Linux OS where it is installed.</p> <p>These Linux OS password settings are not in line with good practice nor with the password settings configured in Windows Active Directory. In particular:</p> <table><tr><th colspan="3">NCS Enterprise (Linux Centos)</th></tr><tr><th>Policy</th><th>Actual</th><th>Leading practice</th></tr><tr><td>Password max age</td><td>Never</td><td>90-180 days</td></tr><tr><td>Password min age</td><td>0</td><td>1 day</td></tr><tr><td>Min Length</td><td>7</td><td>8 or greater</td></tr></table>	NCS Enterprise (Linux Centos)			Policy	Actual	Leading practice	Password max age	Never	90-180 days	Password min age	0	1 day	Min Length	7	8 or greater
NCS Enterprise (Linux Centos)																
Policy	Actual	Leading practice														
Password max age	Never	90-180 days														
Password min age	0	1 day														
Min Length	7	8 or greater														
Risks	Poor password settings can make it easy to compromise accounts, potentially leading to accessing the GL information and making inappropriate changes, which could flow to the LTP.															
Recommendation	We recommend the Council explore the possibility of implementing SSO in the “NCS Enterprise” system. Testing should be performed before changing the settings.															
Management Response	We will investigate this recommendation with our IT dept. and our vendor.															
Person Responsible	Andy Hilton – CSM															
Due By	30 June 2018															

3.9. Access to sensitive folders should be limited.

Risk Rating	Low
Ease of Fix	Simple
Observations	<p>Once the business rules have been executed, and the LTP is effectively complete, it is exported (in an Excel type format) into a Windows folder in a shared drive ("T\Accounting Division\LTP 2018-28").</p> <p>We noted that there were 5 users with full access (i.e.: read and write) to this folder, 3 of which did not require such access for performing their role. These are: Heather Mabin (ex-contractor no longer working at WDC), Kim Quirke (Accountant not involved in the LTP process), and Stuart Duncan (CEO).</p> <p>The risk rating of this finding has been classified as "Low" due to the limited risk of this actually happening, as there are other checks and reviews that would potentially detect any such event.</p>
Risks	Data could be modified before the LTP is published, possibly exposing the Council to reputational and /or financial damage.
Recommendation	Access should be limited to "Read Only" for Kim Quirke and Stuart Duncan, and the user for Heather Mabin should be disabled.
Management Response	We will implement this recommendation.
Person Responsible	Andy Hilton – CSM
Due By	31 March 2018

3.10. Numerous Trees make the LTP output harder to maintain

Risk Rating	Low
Ease of Fix	Simple
Observations	<p>Trees are made up of account codes that are grouped together to create structured reporting for budgeting and the LTP.</p> <p>We noted that there are numerous trees defined within "NCS Performance". Trees that do not automatically update when new account codes are added, or when old account codes are deleted. This can make maintaining the trees more difficult when account codes are added or deleted frequently.</p> <p>The rating of this finding has been noted as Low due to the following system functionality:</p> <ul style="list-style-type: none"> • Doubling up of accounts is not allowed (counting account twice or more); and • Any account codes not mapped are highlighted to the user.
Risks	The LTP may not be complete or accurate if trees are missing or do not include all applicable account codes.
Recommendation	We recommend reviewing the number of trees currently defined in the system, to only those necessary to complete the LTP. Maintenance of the tree should be performed weekly or monthly depending on how often account codes are added or deleted.
Management Response	We will implement this recommendation.

Waimate District Council | Review of Long Term Plan Budgetary Approach

Person Responsible	Melissa Thomson – Accountant
Due By	30 June 2018

3.11. Potential for missing information during data transfer

Risk Rating		Process Improvement
Ease of Fix		Simple
Observations	<p>We noted that there were 37 differences between the GL codes in "NCS Enterprise" and "NCS Performance". In particular:</p> <ul style="list-style-type: none"> • There were 26 account codes in "NCS Performance" that were not found in "NCS Enterprise" (18 were considered "obsolete" while the other 8 were "OPEX" related); • There were 11 account codes in "NCS Enterprise" that were not found in "NCS Performance" (excluding all cost centre codes, the majority of them were balance sheet codes or codes no longer used). <p>This finding has been rated "Process Improvement" due to the built in checks already in the system, which automatically pick up the differences between the charts of accounts.</p>	
Risks	No significant risk. This is a housekeeping finding.	
Recommendation	<p>We recommend that:</p> <ul style="list-style-type: none"> • All obsolete GL codes are deleted and removed from the "NCS Performance" trees to avoid any confusion; • The process users need to take when adding new account codes in either system is documented, to ensure consistency in GL codes in both systems; • Management performs maintenance of GL codes on a regular basis, to clear accounts flagged by the system as being obsolete or to map them correctly. 	
Management Response	We will implement this recommendation.	
Person Responsible	Melissa Thomson – Accountant	
Due By	31 March 2018	

Appendix A – Rating Scale

Risk Rating Scale

Each finding included in the report has been ranked based on the risk we perceive each finding exposes the organisation to. The report adopts the following scale for this purpose:

Risk Rating	Description
Very High	A critical weakness that exposes the organisation to the risk of significant financial loss. Immediate action (within 24 hours of being formally reported) is required to mitigate the risks resulting from the weakness identified.
High	May have a significant adverse impact on the organisation achieving its objectives.
Moderate	May expose the organisation to some risk, but is not considered significant.
Low	Limited risk to the organisation or risks identified for which management is taking appropriate action to mitigate.
Process Improvement	Process improvement or potential inefficiency. Included for management information purposes.

Ease of Fix Rating

Deloitte's estimation of the effort required to fix the finding raised is based on our previous experiences with resolving similar findings at similar organisations. This is intended as a guide only. You should undertake your own assessment to determine the actual level of effort required.

Rating	Description
Simple	There is a simple fix for this finding, which may involve minor system changes that require limited effort to implement or test, minor costs to resolve, or minor changes to system design or business processes. Estimated timeframe for fix to be implemented is within one to three months.
Medium	There is a moderately complex fix for this finding, which may involve some time to develop, implement and test, some cost to resolve, or some changes to system design or business processes. Estimated timeframe for fix to be implemented is within three to six months.
Complex	The solution is complex and may involve substantial time to develop, implement and test, substantial monetary cost to resolve, or substantial changes to system design or business processes. Estimated timeframe for fix to be implemented is in less than 12 to 18 months.

Waimate District Council | Review of Long Term Plan Budgetary Approach



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6.5 AUDIT NEW ZEALAND MANAGEMENT REPORT FOR THE YEAR ENDED 30 JUNE 2017

Author: Karalyn Reid, Committee Secretary and PA to the Mayor

Authoriser: Andy Hilton, Corporate Services Manager

Attachments: 1. **Audit New Zealand Management Report for the year ended 30 June 2017**  

PURPOSE

1. This report provides the Audit and Risk Committee with the opportunity to receive Audit New Zealand's Management Report following completion of the annual report for the year ended 30 June 2017.

BACKGROUND

2. The Annual Report 2016-17 was adopted by Council on 31 October 2017.
3. Audit New Zealand issued an unmodified audit opinion on 31 October 2017.
4. The monitoring of the actions proposed by management in this report falls under the remit of the Audit & Risk Committee. However, because the next Audit & Risk Committee falls on 12 March 2018, staff determined that delivery of this report was best not delayed for a further two months.
5. Subsequently the Audit New Zealand's Management Report was taken to the Public Excluded Environmental Services and Finance Committee Meeting on 30 January 2018, with the below resolution:

That the Environmental Services and Finance Committee recommends that Council refer the report to the next Audit and Risk Committee meeting for review and action.

PROPOSAL

6. That the Audit and Risk Committee provide feedback to Council on any areas of note within the report.

Options

7. There are no known obstacles.

ASSESSMENT OF SIGNIFICANCE

8. This matter is not deemed significant under Council's Significance and Engagement Policy.

CONSIDERATIONS

9. The Committee is asked to review the management comments, in particular noting that resolution of the urgent item identified by Audit is progressing well with the introduction of Council's new LTP system.

Legislation

10. The Local Government Act 2002 ("the Act") requires Council be independently audited.

Territorial or Regional Council Regulations, Plans or Bylaws

11. Not applicable.

Risk

12. The Audit undertaken by AuditNZ is amongst a suite of measures Council has at its disposal to control/identify the risks associated with the operation. The Audit standards disclosure (appendix 4) speaks to the fact the Audit should not be relied upon solely to detect every instance of misstatement, fraud, irregularity or inefficiency with Council.

Other

13. There are no other considerations.

FINANCIAL

14. The additional work carried out by Audit resulted in an increased cost to Council than was originally budgeted.

Budget

15. The Audit cost was \$15,000 (exc GST) higher than budget.

Cost-effectiveness

16. Cost-effectiveness consideration is not applicable.

RECOMMENDATION

1. That the Audit New Zealand Management Report for the year ended 30 June 2017 report is accepted; and
2. That the Audit and Risk Committee provides feedback to Council on any areas of note within the report, and propose any related action items

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Report to Council on the annual audit of

Waimate District Council

for the year ended 30 June 2017

Report to the Council on the audit of Waimate District Council
for the year ended 30 June 2017

Page 1

Key messages

We have completed the audit for the year ended 30 June 2017. This report sets out our findings from the audit and draws attention to areas where Waimate District Council (the Council) is doing well or where we have made recommendations for improvement.

This report summarises the work performed, and notes audit issues identified during our engagement. We have raised five matters, the recommendations are listed below. There are a number of other recommendations made during our interim audit and in the 2016, for which progress has been variable (refer to Appendix 2). We have made comments on the areas of interest raised in our arrangements letter (see Appendix 3).

Issues identified during the audit

The following table summarises our recommendations and their priority:

Recommendation	Urgent	Necessary	Beneficial
To ensure the model for LTP, Annual Plan and Financial Statements are consistent and allocations documented.	✓		
To ensure all assets within a class are revalued to comply with PBEIPSAS 17.		✓	
Valuations are completed at an earlier stage to allow time for quality assurance processes.			✓
Prepare the draft financial statements in line with agreed dates.			✓
Implement a quality assurance process before the audit.			✓
Disclose the number of water faults in the results for the response time to urgent and non-urgent performance measure.			✓
Report comparative results for statement of service performance measures.			✓

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

Thank you

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



Scott Tobin
Audit Director
6 December 2017

Report to the Council on the audit of Waimate District Council
for the year ended 30 June 2017

Page 2

Contents

1	Our audit opinion	3
2	Significant matters, issues, or risks identified during the audit.....	3
3	Control environment	7
4	Status of previous recommendations.....	8
	Appendix 1: Explanation of priority rating system.....	9
	Appendix 2: Status of previous recommendations.....	10
	Appendix 3: Matters of interest for all local authorities.....	12
	Appendix 4: Mandatory disclosures	14

1 Our audit opinion**1.1 We issued an unmodified audit opinion**

We issued an unmodified audit opinion on 31 October 2017. We were satisfied that the financial statements and statement of service performance fairly reflected the Council's activity for the year and its financial position at the end of the year.

1.2 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. There were no significant misstatements identified during the audit that have not been corrected.

2 Significant matters, issues, or risks identified during the audit**2.1 The model for Long Term Plan (LTP), Annual Plan and Financial Statements are not consistent**

While completing our audit we identified that the comparative figures did not reflect previous documents. Following discussion with Andy Hilton (Corporate Services Manager) we were informed the model used for the LTP, Annual Plan and Financial Statements were not consistent. As the driver for the allocation of funding was different for the three documents the comparability for these figures was limited.

Recommendations

- The Council clearly documents the allocation of funding, and when annual plans are produced those allocations are consistent with the LTP.
- Any changes to the underlying model need to be clearly documented and reviewed for consistency.

Management comment

The complexity of the model employed to produce the financial information for LTP and Annual Plan, has been identified by Staff as a driver for consistency errors and a barrier to gaining comprehensive, internal assurance of the consistency of the final result.

Staff, under direction of Council, engaged a third party provider of modelling software in March 2017 to provide their solution to Council, and are well on the way to implementing this alternative model as the basis for delivering our 2018-28 LTP financials. This includes a process of fully documenting the basis of the model.

2.2 Revaluation infrastructure assets

PBE IPSAS 17 Property, Plant and Equipment, requires that valuations are carried out with sufficient regularity to ensure that the carrying amount does not differ materially from fair value. The District Council revalued its roading assets, sanitation assets, and three waters assets as at 30 June 2017.

Valuations increased the value of assets by \$30.7 million.

The valuations were delayed for various reasons, including external party review (roading). The external valuers were late on delivery of final drafts, this delayed the Council's annual report preparation and the audit. The water revaluations were also delayed due to the unfortunate and understandable absence of the Assets Group Manager.

We identified the water supply revaluation did non-comply with PBE IPSAS 17, which requires all assets within an asset class to be revalued simultaneously. The water assets excluded were Ducts – Waitaki Bridges, Cattle Creek Scheme, Waihaorunga – Mag Flow Water Meter and the Hakataramea Scheme. The items within a class of property, plant and equipment are revalued simultaneously in order to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates.

We reviewed the revaluation process including source data collection, methodology of the valuation reports and reasonableness of assumptions and concluded the valuations were appropriate for inclusion in the financial statements.

Overall the valuations were reasonable and appropriately reflected in the financial statements.

Recommendations

- Valuations are completed at an earlier stage to allow time for quality assurance processes and the figures to be included in the financial statements.
- The Council ensure all assets within an asset class are revalued when they perform revaluations.

Management comment

Staff acknowledge the comments surrounding earlier completion of the revaluations and will implement systems to ensure that quality assurance checks occur in a timely manner for 30 June 2020.

Council utilises Asset Finda for the three waters asset database and this currently excludes both the Hakataramea and Cattle Creek rural water schemes. These two schemes are run and maintained by an incorporated society and the consumers respectively. Staff will endeavour to introduce these assets to the database prior to the 2020 revaluations.

Staff will review the classification of assets and reclassify as appropriate.

2.3 Preparation of the financial statements

The financial statements provided to us at the beginning of the audit were incomplete. The equity and tax and tax notes were not updated, the statement of cash flows was not complete and the revaluation of infrastructure assets was not included in the financial statements (refer above for comments regarding the valuations). A set of financial statements with all of the disclosures above completed and ready for our review was provided five weeks later than the date agreed.

As well as the delayed preparation, our audit of the financial statements and performance identified numerous small, but time consuming to fix. Errors included matters such as incorrect disclosures required for accounting standards and errors in comparative and current year figures, many of which had not been updated appropriately or from previous years.

Contributing factors to these matters were:

- An outdated financial model to map financial statements and link key disclosures. The financial model disclosures, and mapping was not consistent with current Council practices. The new GL codes in the system were not mapped, this led to incorrect figures moving through to the draft financial statements.
- A lack of internal quality assurance review over the information provided, and sense check of numbers relying on the above model.

The process of adjusting the figures in the financial statement was long and several versions of the annual report were prepared by management and reviewed by the audit team.

Our fee is set upon the expectations set out in the arrangement letter. The fee for 2017 has been significantly exceeded, due in part to the delays from the late completion of valuations and the number of annual report iterations reviewed. We will be discussing the fee overrun with management. The process also meant that management spent a lot more time working on the annual report than it should have.

Despite the difficulties faced, we note the positive attitude, high level of communication and good working relationship with management. Our requests for correction to the misstatements were well received and team members were receptive of our suggestions throughout the audit process.

Recommendations

We recommend:

- A project management approach to the annual report preparation, including scheduling of valuations.
- Timeframes to include sufficient time for self-review of information prepared.
- Revision/replacement of the excel model used to compile the financials for the annual report.

Management comment

Staff acknowledge that significantly more work than initially expected was required to ensure the Financial Statements model was up to date and contributed to the delay in delivery of the final result.

Staff further acknowledge that with the CSM the sole Council resource devoted to production of the financial statements, a degree of assurance and continuity that had been present in previous Annual Report cycles was missing. This also contributed to the delay in production of the result.

Staff have reflected that there appeared to be some re-testing of areas that had been reviewed by the Audit team as part of September field testing, which contributed to some delays to the audit process.

Staff resolve to apply the recommendations highlighted above. In addition, Staff reflect that the absence of an LTP process running parallel to the Annual Report process will ensure more resource can be applied to the Annual Report in advance deliver of a draft result to Audit.

2.4 Service Performance Statements

We have identified two areas of improvements for the service performance disclosures.

2.4.1 Disclosure water supply faults and response times

For water assets, the Council reports the average number of minutes taken to respond to, and resolve, faults. Although not required, we consider the disclosure would be enhanced by the inclusion of the number of faults classified as urgent and non-urgent. Adding this information it allows the reader to better understand the reliability of the service and also provides a context for the response times.

We also identified response times that had been incorrectly entered into the Asset Finda system for some faults. This resulted in resolution times which were less than response times.

Recommendations:

- Include the number of urgent and non-urgent faults in the Service Performance Statements.
- Response times be reviewed for reasonableness, and to ensure that resolution times are not less than response times.

Management comment

Staff will review the proposed enhanced disclosure and consider the resources required to deliver the extra information, which is the main barrier to implementation.

Staff will review the response times in Asset Finda as per the recommendation, including process that yielded the error in the first place.

2.4.2 Statement of Service Performance comparative disclosure

Currently for many of the reported measures the comparative (prior year) results reported simply show 'achieved' or 'not achieved'. We recommend the comparative show the actual prior year result. In many cases that information is more useful than performance against the target as it will highlight actual increases or decreases in performance.

Recommendation

Report detailed comparative results for the statement of service performance measures.

Management comment

Staff acknowledge that greater detail in the reported result will provide the reader with a more detailed result. At present our view is that the disclosure is sufficient.

2.5 Waimate Event Centre

Following the completion of the Waimate Event Centre we performed a sample testing of capital expenditures incurred during the year, reviewed valuation and recognition of fixed assets in the financial statements. Our review identified the following:

- The Waimate Event Centre has been appropriately recognised in the Fixed Asset Register, and accounted for correctly in the financial statements. The recognition of related depreciation expense has been appropriately calculated.
- The vested portion of the Waimate Event Centre of \$1,922k has been appropriately recognised in the financial statements and is based on a suitable valuation performed by QV.
- The funds received during the year from the Waimate Event Centre Community Trust of \$312k has appropriately been recognised as revenue and disclosed in the notes of the financial statements.
- Our testing on the expenditure relating the Waimate Event Centre did not identify any instances where expenditure was not reasonable.

Council completed its own internal review of the retrospectively authorised expenditure identified late in 2016. We consider that review reasonable and the learnings identified appropriate. Those findings need to be considered for future projects and decision-making processes.

There are no outstanding audit issues relating to the project.

3 Control environment

As discussed in the interim management report we performed a high-level review of the control environment. We considered the overall attitude, awareness, and actions of the Council and management in establishing and maintaining effective management procedures and internal controls. Our assessment of these areas was based on regular discussions with key members of senior management, members of the Council, and our accumulated knowledge of the Council's business.

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

¹ 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".

² Control has operated effectively throughout the period tested.

In our review of the District Council's current processes we assessed the control environment as design and operationally effective. At the final audit we ensure the controls continued to operate, we can confirm the controls were operationally effective for the full financial year.

In the interim management report we made recommendations to document controls, and update the staff handbook. We have included these in the Appendix 2: Status of previous recommendations.

4 Status of previous recommendations

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

Summary of action taken against previous years' and interim recommendations:

Number of recommendations from previous years' audits	Current status
0	Matters that have been resolved
4	Progress is being made, but not yet fully resolved
5	No progress has been made

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 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 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 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

Outstanding matters

Recommendation	Current status	Priority	Management's proposed action
Fair Value Assessment			
The District Council complete a formal impairment assessment for each revalued asset class that is not subject to a valuation in that financial year.	There has been no formal impairment assessment process implemented at year-end as this was a revaluation year.	Necessary	<i>The informal process will be replaced with Price Level Change Adjusters and capital work costs.</i> <i>Council is simply not resourced to a level at which it could undertake a full, detailed review as suggested in the 2016 report.</i>
Accounting for property, plant and equipment			
The District Council implement a monitoring and write off process to account for the infrastructure assets that are replaced during the year.	Council is currently working to provide the necessary resource to service this requirement moving forward.	Necessary	<i>This is still in progress.</i> <i>Reliance is on the valuation, and per discussion with Rob no disposals have been made.</i> <i>Further progress will be made during the course of 2017/18 with additional resource now secured in the Asset Management team.</i>
Strengthen the internal controls around property, plant and equipment assets by ensuring all additions and disposals are appropriately authorised by personnel with the right delegated authority. Additionally, regular stocktakes, and timely reconciliations between the general ledger and fixed assets register should be performed to the existence and accuracy of records over those assets.	Monthly reconciliations are performed, however no formal stocktake process over assets was performed.	Necessary	<i>We accept that little progress on stock take procedures has been made.</i> <i>Stock takes have been undertaken where required in relation to Fire Assets, IT equipment and Vehicles during the year.</i> <i>As part of the implementation of the updated financial system modules, we will be designing and/or updating processes around stock, job costing and assets and are confident progress around stock taking procedures will result.</i>

Report to the Council on the audit of Waimate District Council
for the year ended 30 June 2017

Page 11

Recommendation	Current status	Priority	Management's proposed action
Statement of service performance			
We recommend that a formal system is in place to ensure that the measures reported in SSP are accurate.	During the final audit process for 2017 we identified a significant amount of errors in the first and subsequent drafts.	Necessary	See main report section 2.3 response.
Contract, project management and procurement			
Consideration should be given to enhancing contract management and project management policies and practices.	No change – some members of staff have had training.	Beneficial	We are mindful of the need to make progress in this area. Council does not have sufficient spare resource to dedicate to contract or project management.
Procurement policy			
The procurement policy should include conditions relating to, set value, quantity limits and restrictions on the use of purchasing privilege for third parties such as family and friends.	The procurement policy has not been updated.	Beneficial	Council intends to programme in policy reviews, with critical policy amendments first on the list. Procurement policy will form part of this review.
Control Environment			
The District Council would benefit from formally documenting the Financial Reporting and internal control processes.	No progress has been noted.	Beneficial	Work is ongoing to review and update reporting and control procedures.
The District Council updates the Staff Handbook, last updated in 2013.	No progress has been noted.	Beneficial	An update is planned for the 2017/18 financial year.
High annual leave balances			
We recommend that annual leave balances for all employees are monitored on a regular basis, with appropriate steps being taken by the entity to reduce this liability where possible.	Management review leave balances monthly, however, high leave balances in excess of 10 days more than their entitlement remain.	Beneficial	Action is underway, led by the HR Manager, to promote use of holidays where leave balances are large. This is part of regular, active monitoring of leave balances Leave balances are reported, and are an area of focus for, the Audit & Risk Committee.

Appendix 3: Matters of interest for all local authorities

Areas of interest	Our audit response
Rates	
Rates are the District Council's primary funding source. Compliance with the Local Government (Rating) Act 2002 (LGRA) in rates setting and collection is critical to ensure that rates are validly set and not at risk of challenge.	Noting our review is not a legal review, we consider the Council has complied with the Local Government Act 2002 for annual report purposes.
Financial reporting disclosures	
Schedule 10 of the Local Government Act and the Local Government (Financial Reporting) Regulations 2014 detail disclosures to be included in the Annual Report. The District Council should review these requirements to ensure all disclosures have been included in the annual report.	We identified a number of disclosure deficiencies on our review of the draft information. The identified misstatements have been corrected in the final version of annual report.
Funding impact statements (FIS)	
The District Council's annual report will identify and explain any significant financial and service performance variances from those planned. While the FIS incorporates two years' comparative information, we expect the primary focus of variance explanations at the Group of Activities level and whole of District Council will be against the 2015 2025 LTP.	During our review we identified a significant number of errors in the FIS. This was regarding comparative figures reported. The identified misstatements have been corrected in the final version of annual report.
Possible LTP amendments	
Every proposed amendment must be audited. An amendment arises where District Council proposes: <ul style="list-style-type: none"> a significant change to services levels - section 97 (1)(a); or to transfer ownership of a strategic asset - section 97(1)(b); or a significant change to the revenue and financing policy - section 103(4). 	No LTP amendments were identified.
Conflicts of interest	
Conflicts of interest are an area of concern from two perspectives; probity and the potential for a conflict of interest that is not well managed to create significant legal and reputation risks. During 2007 the Office of the Auditor General (OAG) published two sets of guidance for entities in this area. Managing conflicts of interest: guidance for public entities, explains how to understand conflicts of	We did not identify any indications of a pecuniary interest gained by management, councillors, or any related party. We have recommended improvements to the process of management of conflicts of interests in the interim management report.

Report to the Council on the audit of Waimate District Council
for the year ended 30 June 2017

Page 13

Areas of interest	Our audit response
<p>interest in the public sector, and how to identify, disclose, and manage them. It also considers both the legal and ethical dimensions of conflicts of interest.</p> <p>Guidance for members of local authorities about the law on conflicts of interest provides more specific guidance for councillors. This is an updated version of previously published guidance about the legal requirements that apply to council members in formal decision making at meetings of their authority.</p> <p>The Local Authorities (Members' Interests) Act 1968 controls the making of contracts between councillors and the District Council and prevents councillors from participating in District Council matters in which they have a pecuniary interest.</p>	
Elected members – remuneration and allowances	
<p>The Local Government Act gives the Remuneration Authority responsibility for setting the remuneration of local government elected members. The Authority also has the role of approving a Local Authority's policy on allowances and expenses.</p> <p>The District Council's annual report must disclose the total remuneration received by or payable to each member of the local authority in the reporting period. A local authority must disclose remuneration paid or payable to each member from both the local authority and any District Council organisation of the local authority.</p>	<p>Our audit did not identify any indication of non-compliance with Local Government Act regarding elected members remuneration and allowances.</p>

Appendix 4: 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.</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 carry out our audit in accordance with the Auditor-General's Auditing 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 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): Code of Ethics for Assurance Practitioners, issued by New Zealand Auditing and Assurance Standards Board.</p> <p>Other than the audit, we have no relationship with, or interests in, the 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 Waimate 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 Waimate 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>

6.6 DISCUSSION WITH COUNCIL'S AUDITORS - 10.30AM

Author: Karalyn Reid, Committee Secretary and PA to the Mayor
Authoriser: Andy Hilton, Corporate Services Manager
Attachments: Nil

BACKGROUND

1. An opportunity for the Audit and Risk Committee to hold an informal discussion on the below audit related matters:
 - a. Introduce Council's new Audit Director
 - b. Discuss Audit NZ Management Report for the year ended 30 June 2017
 - c. Discuss other related Audit matters
2. Director and Head of Audit and Quality Scott Tobin will be in attendance, and will introduce our new Audit Director for the 2018 annual audit.

PUBLIC EXCLUDED

7 EXCLUSION OF THE PUBLIC REPORT

RESOLUTION TO EXCLUDE THE PUBLIC

RECOMMENDATION

That the public be excluded from the following parts of the proceedings of this meeting.

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

General subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Ground(s) under section 48 for the passing of this resolution
7.1 - Public Excluded Minutes of the Audit and Risk Committee Meeting held on 4 December 2017	s7(2)(b)(ii) - the withholding of the information is necessary to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information	s48(1)(a)(i) - the public conduct of the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding would exist under section 6 or section 7
7.2 - Public Excluded Action Point Report	s7(2)(b)(ii) - the withholding of the information is necessary to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information	s48(1)(a)(i) - the public conduct of the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding would exist under section 6 or section 7
7.3 - Presentation - JLT Group Ltd - 11.30am	s7(2)(b)(ii) - the withholding of the information is necessary to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information	s48(1)(a)(i) - the public conduct of the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding would exist under section 6 or section 7
7.4 - Public Excluded Leave Liability	s7(2)(a) - the withholding of the information is necessary to protect the privacy of natural persons, including that of deceased natural persons	s48(1)(a)(i) - the public conduct of the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding would exist under section 6 or section 7

**8 RE-ADMITTANCE OF THE PUBLIC REPORT
MEETING CLOSURES**