

Agenda

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

Tuesday 26 November 2019

Commencing at 10.00am

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 Tuesday 26 November 2019, commencing at 10.00am.

Committee Membership

Vacant	Chair
Sheila Paul	Deputy Chairperson
Craig Rowley	Mayor
Miriam Morton	Councillor
Tom O'Connor	Councillor

Quorum – no less than three members

Speaking Rights and Voting

Model Standing Orders 2.12: Part 4 & Schedule 7 of the Local Government Act 2002 and Part VII of the Local Government Official Information and Meetings Act 1987

2.12.2 A member of a local authority, or of a committee of a local authority, has, unless lawfully excluded, the right to attend any meeting of the local authority or committee.

2.15.12 The members of each committee are to be named on the relevant agenda.

3.3.2 The chairperson is to decide all questions where these standing orders make no provision or insufficient provision; and all points of order, and any member who refuses to obey any order or ruling of the chairperson shall be held guilty of contempt.

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	4
1 Apologies	4
2 Visitors	4
3 Conflicts of Interest	4
4 Identification of Major (Urgent) or Minor Items Not on the Agenda	4
Reports	5
5 General Reports	5
5.1 Health and Safety Report	5
5.2 Human Resources Managers Report	6
5.3 Corporate Services Group Manager Report	8
5.4 Audit New Zealand Audit Report for the year ended 30 June 2019	9
5.5 External Audit Recommendations Progress Update to 31 October 2019.....	33
5.6 2019/20 Major Project Update.....	41
Public Excluded	44
6 Exclusion of the Public Report	44
6.1 Corporate Services Group Manager Report - Public Excluded	44
7 Re-admittance of the Public Report	45
Meeting Closures	45

OPENING

1 APOLOGIES

2 VISITORS

3 CONFLICTS OF INTEREST

As per the Local Authorities (Members' Interests) Act 1968 (as below), the Chair will enquire if there are any Conflicts of Interest to be declared on any item on the agenda, and if so, for any member to declare this interest.

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.

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

1. The Chair will call for any major (urgent business) or minor items not on the agenda to be raised according to Standing Orders, as below:

- a. **Standing Orders 3.7.5 – Major Items**

An item not on the agenda for a meeting may be dealt with at the meeting if the local authority by resolution so decides, and the presiding member explains at the meeting at a time when it is open to the public –

- i. The reason why the item was not listed on the agenda; and
 - ii. The reason why discussion of the item cannot be delayed until a subsequent meeting.

- b. **Standing Orders 3.7.6 – Minor Items**

An item not on the agenda for a meeting may be dealt with at the meeting if –

- i. That item is a minor matter relating to the general business of the local authority; and
 - ii. The presiding member explains at the beginning of the meeting, at a time when it is open to the public, that the item will be discussed at the meeting; but
 - iii. No resolution, decision, or recommendation may be made in respect of that item except to refer that item to a subsequent meeting of the local authority for further discussion.

REPORTS

5 GENERAL REPORTS

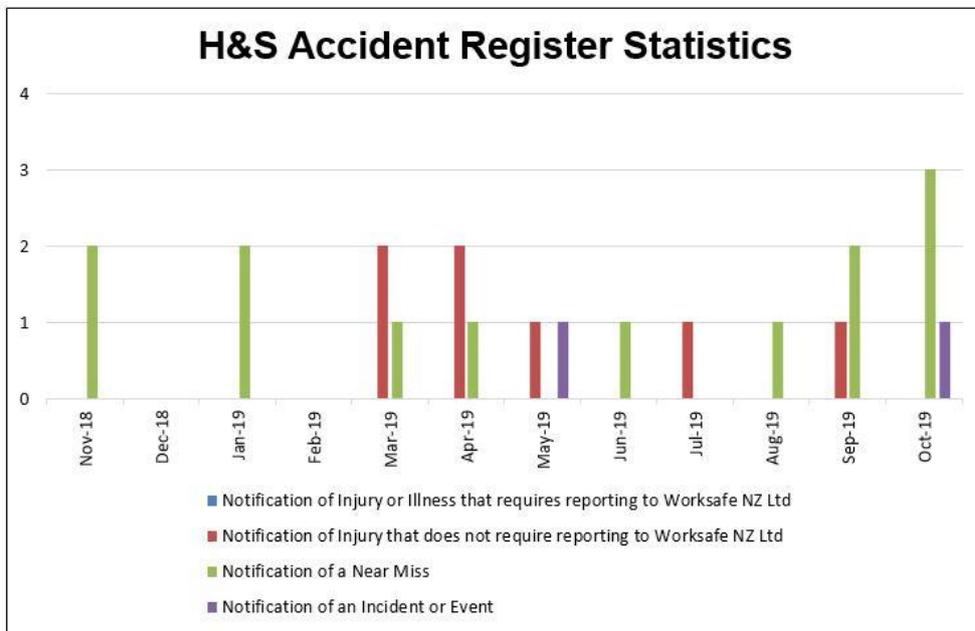
5.1 HEALTH AND SAFETY REPORT

Author: Luci Swatton, Emergency Management and Health and Safety Officer
Authoriser: Paul Cooper, Regulatory and Compliance Group Manager
Attachments: Nil

PURPOSE

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

Health and Safety Statistics



2. Since the last report in March 2019, there have been nine near misses, two incidents and seven accidents resulting in an injury (not requiring reporting to WorkSafe NZ). The near misses have included driving incidents, two plastic chair collapses at the Events Centre, a trip on an uneven pathway and clothing caught in machinery. The accidents reported since March 2019 have included several back strain injuries, a rolled ankle, and a scratch from a dog. An incident of note was two customers becoming irate and abusing a staff member.
3. Responsibility for Health and Safety has changed and now sits with Paul Cooper the Regulatory and Compliance Group Manager, and Luci Swatton the Emergency Management and Health and Safety Officer.
4. Since March 2019 the review of the health and safety manual has been completed, the health and safety forms and reporting systems have been updated, a news bulletin (health and safety newsletter) and a new health and safety committee (Dare to Care Team) has been formed.

RECOMMENDATION
 That the Health and Safety Report is accepted.

5.2 HUMAN RESOURCES MANAGERS REPORT

Author: Fiona Hester-Smith, Human Resources Manager
Authoriser: Fiona Hester-Smith, Human Resources Manager
Attachments: Nil

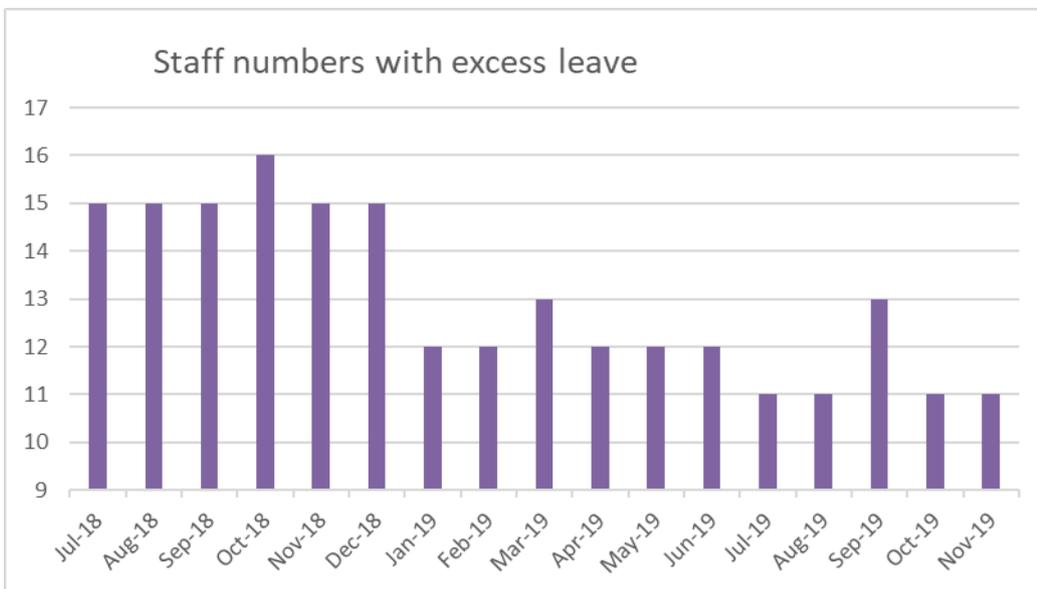
PURPOSE

1. The Human Resources Report is submitted for the information of the Audit and Risk Committee.

Leave Liability Graphs



2. With the increase in staff numbers over the summer season, the leave liability increases each year at this time. With the close down of the Local Government Centre between Christmas and New Year traditionally our leave liability drops from its current position.



RECOMMENDATION

That the Human Resources Report is accepted.

5.3 CORPORATE SERVICES GROUP MANAGER REPORT

Author: Tina Stevenson, Corporate Services Group Manager
Authoriser: Tina Stevenson, Corporate Services Group Manager
Attachments: Nil

PURPOSE

1. To provide the Audit and Risk Committee with an update of the following Council activities:

Audit and Risk Committee Independent Chair – Update

2. Recruitment for an Independent Chair of the Audit and Risk Committee for a 2-year fixed term was undertaken during August 2019. Following the closing of applications on 26 August 2019 an appointment was made.
3. Unfortunately, the appointee has since made contact with the Chief Executive to advise that he was unable to accept the position as he was relocating out of the country.
4. We are now reassessing our options with regards to the appointment of an Independent Chair.
5. The committee's Terms of Reference, Work Plan and Reporting are all to be reviewed once an appointment has been made.

Schedule of Meetings for Next Year

6. The Audit & Risk Committee Meeting Dates were adopted at the 29 October 2019 Council Meeting along with other meetings of Council. The dates confirmed for the Audit & Risk Committee were as follows:
 - 3 March 2020
 - 9 June 2020
 - 8 September 2020
 - 24 November 2020

Monitoring of Corporate Policies

7. An update on the status of policies was presented to the Community Services and Development Committee meeting held 19 November 2019, so has therefore not been repeated in this forum.

RECOMMENDATION

That the Corporate Services Group Manager Report is accepted.

5.4 AUDIT NEW ZEALAND AUDIT REPORT FOR THE YEAR ENDED 30 JUNE 2019

Author: Tina Stevenson, Corporate Services Group Manager

Authoriser: Tina Stevenson, Corporate Services Group Manager

Attachments: 1. **Report to the Council on the audit of Waimate District Council for the year ended 30 June 2019** [↓](#) 

PURPOSE

1. To provide the Audit and Risk Committee with the Audit NZ report on the audit of Council for the year ended 30 June 2019.

BACKGROUND

2. Audit New Zealand conducted their annual on-site interim audit during April 2019. Their interim audit report was considered in the 20 August 2019 Audit & Risk Committee Meeting.
3. Audit New Zealand returned to complete the final audit of Council's Annual Report 2019 during September.
4. Council adopted the audited 2019 Annual Report on 8 October 2019.
5. Council staff have provided management comments in response and these are incorporated into the attached report.

PROPOSAL

6. That the Audit & Risk Committee receives the Audit New Zealand Audit Report and provides feedback on any areas of note within the report and propose any related action items.

ASSESSMENT OF SIGNIFICANCE

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

FINANCIAL

8. There are no known budget considerations.

RECOMMENDATION

1. That the Audit New Zealand Audit Report for the year ended 30 June 2019 report is accepted; and
2. That the Audit and Risk Committee provides feedback on any areas of note within the report and propose any related action items.

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

**Report to the Council
on the audit of**

Waimate District Council

For the year ended 30 June 2019

Contents

Key messages	3
1 Recommendations	4
2 Our audit report	6
3 Matters raised in the Audit Plan	7
4 Other matters	11
5 Public sector audit.....	14
6 Key changes to the Government Rules of Sourcing.....	15
7 Useful publications.....	16
Appendix 1: Corrected misstatements.....	19
Appendix 2: Disclosures	22

Key messages

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

Audit opinion

We issued an unmodified audit opinion on the Councils' financial statements and council activities performance reporting on 8 October 2019.

Matters identified during the audit

This report focuses mainly on the audit risks and issues identified in our audit plan, how we addressed these during the audit, and the outcome from our audit responses.

The interim audit focused on the Council's control environment and systems of internal controls. This report complements our Report to the Council on our interim audit dated 21 June 2019.

Thank you

We would like to thank the Council, management and staff for their assistance. Special thanks to Tina Stevenson (Corporate Services Group Manager) and Melissa Thomson (Accountant) for providing information on time and making themselves available to respond to queries throughout the audit.



Dereck Ollsson
Appointed Auditor
17 October 2019

1 Recommendations



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

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

1.1 New recommendations

The following table summarises our recommendations and their priority.

Recommendation	Reference	Priority
<p>Downlands Rural Water Scheme (DWS)</p> <p>Assess whether your interest in DWS meets the definition of a joint arrangement, and if so whether it is a joint venture or a joint operation, or whether it is that of an associate.</p> <p>Design and perform steps to confirm that the value of the investment is accurate, including consideration of impairment indicators.</p>	4.1	Necessary
<p>Fair value and impairment assessments for property, plant and equipment</p> <p>As reported in previous years, management’s fair value assessments are formally documented to substantiate conclusions regarding fair value movements relative to asset carrying amounts in the financial statements, and to demonstrate compliance with the accounting standard.</p>	4.2	Necessary

Recommendation	Reference	Priority
Fair value assessments for assets valued on the basis of replacement cost need to include consideration of construction indices or similar. Similarly, going forward, management should prepare formally documented impairment reviews.		
Quality Assurance review of draft council activities performance reporting Subject the draft council activities performance reporting to an effective review process.	4.3	Necessary

1.2 Status of previous recommendations

Set out below is a summary of the action taken against previous recommendations. The recommendations raised and reported in the interim report dated 21 June 2019 have not been fully implemented or closed since our interim audit visit. We have not repeated the recommendations in this report.

Priority	Priority			
	Urgent	Necessary	Beneficial	Total
Open recommendations raised at interim		2	2	4
Implemented or closed reported at interim		6	1	7
Total		8	3	11

2 Our audit report

2.1 We issued an unmodified audit report



We issued an unmodified audit report on 8 October 2019, this being the date the Council adopted the audited annual report. This means we were satisfied that the financial statements and council activities performance reporting present fairly the Council's activities for the year and its financial position at the end of the year.

In forming our audit opinion, we considered the following matters. Refer to sections 3 to 5 for further detail on these matters.

2.2 Uncorrected misstatements and disclosures

The financial statements and council activities performance reporting 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. We are satisfied that these misstatements are individually or in aggregate immaterial to the financial statements.

2.3 Corrected misstatements and disclosures

During the audit we identified misstatements and disclosure deficiencies that were adjusted and amended in the annual report. The misstatements and disclosures corrected by management are listed in Appendix 1.

We have not reported the corrected misstatements that related to minor edits of a presentation and disclosure nature that were agreed upon by management and us.

2.4 Quality and timeliness of information provided for audit



The draft annual report and supporting working papers were provided and made available at the commencement of the audit. The financial information was of a good quality, and the provisions of a fully electronic substantiation file created efficiencies for both management and ourselves.

The council activities performance information contained a large number of relatively minor errors, which would have been easily identified and amended by Council prior to the audit if a more thorough quality review process had been implemented.

Further to this, all audit queries were also addressed in a timely manner.

We would like to highlight that Tina Stevenson (Corporate Services Group Manager) and Melissa Thomson (Accountant), as well as other finance staff and the asset team, made themselves available throughout the audit and promptly provided appropriate supporting documentation.

3 Matters raised in the Audit Plan



In the table below, we set out the outcomes of our responses to the main risks and issues advised to the Council in our Audit Plan dated 22 March 2019.

Audit risk/issue	Outcome
The risk of management override of internal controls	
<p>There is an inherent risk in every organisation of fraud resulting from management override of internal controls. Management are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Auditing standards require us to treat this as a risk on every audit.</p>	<p>We performed audit procedures to address the risk of management’s ability to override controls. To address this risk, we:</p> <ul style="list-style-type: none"> • tested the appropriateness of selected journal entries; • reviewed accounting estimates for indications of bias; • evaluated any unusual or one-off transactions, including those with related parties; • reviewed the appropriateness and application of accounting policies to particular transactions including, for example, the treatment of costs as capital rather than operating expenditure and vice versa, and • reviewed the reasonableness of management judgements for accounting estimates, particularly accruals, provisions, impairments and fair value assessments. <p>We noted no indicators of management override in our audit.</p>
Alpine Energy Share Valuation	
<p>Waimate District Council has 7.54% shareholding in Alpine Energy Limited (AEL). This investment is measured at fair value with gains/losses recognised in other comprehensive revenue and expense in accordance with the requirements of PBE IPSAS 29 (Financial Instruments: Recognition and Measurement).</p> <p>During 2017/18, Audit New Zealand as well as the directors of Timaru District Holdings Limited (TDHL) found the fair value valuation prepared by Deloitte to be grossly overstated. Ernst and Young (EY) were subsequently engaged to</p>	<p>In 2018/19, EY performed a desktop valuation review to determine whether the fair value of AEL had materially changed from that determined in the prior year.</p> <p>We reviewed the valuation report, and liaised with the valuer, to gain assurance over the appropriateness and reliability of source data, assumptions, and methodologies applied. On the basis of this work, we have gained sufficient assurance that there has been no material fair value movement requiring recognition in the financial</p>

Other focus areas	Our audit response
<p>Impairment</p> <p>PBE IPSAS 21 (Impairment of Non-Cash-Generating Assets) and PBE IPSAS 26 (Impairment of Cash-Generating Assets) respectively require that an entity assess, at the end of each reporting period, whether there is any indication that an asset (including intangible assets) may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset. The standard also provides guidance on some indicators that an asset may be impaired.</p> <p>In conjunction with completing the fair value assessment, we expect the Council to have completed an impairment assessment to determine whether any assets will need to be impaired.</p>	
<p>Bribery and corruption</p>	
<p>Parliament’s Finance and Expenditure Committee are interested in understanding whether the public sector has effective corruption prevention and detection processes in place. As a result, the Office of the Auditor-General (OAG) is gathering initial information relating to how public entities address these risks, including what processes are used to prevent bribery and corruption. This work will be used to inform whether further investigation is undertaken by the OAG.</p> <p>Accepting bribes and taking part in a corrupt act is a crime in both the public and private sectors in New Zealand. Offences apply to transactions that happen domestically and those that occur overseas. A New Zealander or NZ organisation may also be prosecuted under overseas legislation.</p> <p>Organisations must take reasonable steps to prevent corruption and bribery. This includes:</p> <ul style="list-style-type: none"> • robust anti-corruption compliance procedures for preventing, detecting and responding to corruptions; and • leadership must be committed to preventing corruption and actively promote a zero tolerance culture. Senior leadership (Chief Executive or the Board) should own the policy and procedures. 	<p>We confirmed that the Council’s Staff Manual incorporates a Code of Conduct as well as procedures for dealing with serious misconduct. The Council also has a separate Fraud Policy. These documents do not explicitly define bribery and corruption, but do nonetheless clearly set out expectations of employees should instances of wrongdoing be identified.</p> <p>We reviewed how management or those charged with governance promote ethical guidelines. We confirmed that there is an induction process for new employees, and informal refreshers are provided periodically.</p> <p>We reviewed the processes and controls which are used by management and those charged with governance to mitigate the risks of bribery and corruption. We are satisfied that these are appropriate for an entity of the council’s size and nature.</p>

Other focus areas	Our audit response
Organisations should assess the risk of corruption and bribery. Their focus should then be on the areas of higher risk.	

4 Other matters

4.1 Downlands Rural Water Scheme

Findings

The Council has a 14% interest in the DWS. DWS is jointly governed and administered with Timaru District Council (82% interest) and Mackenzie District Council (4% interest).

For the year ended 30 June 2019, the Council has accounted for its interest in DWS as a joint venture using the proportionate consolidation method under PBE IPSAS 8 (Interests in Joint Ventures). For the next financial year, the interest in DWS will need to be accounted for in accordance with PBE IPSAS 36 (Investments in Associates and Joint Ventures).

PBE IPSAS 36 redefines joint control, so it is important that the Council assesses whether its interest in DWS continues to meet the definition of a joint venture or, alternatively, whether it is a joint operation or associate. The outcome of this assessment will impact how the DWS is accounted for in the 2019/20 financial statements.

As DWS does not prepare GAAP compliant financial statements or have documented accounting policies, the Council is reliant on the work performed by Timaru District Council for ensuring that the information included in the financial statements is accurate and complete. The Council should perform steps to confirm that the value of the investment is accurate and gain an understanding of any potential impairment of the assets held by DWS.

Recommendation

Assess whether the interest in DWS meets the definition of a joint arrangement, and if so whether it is a joint venture or a joint operation, or whether it is that of an associate.

Design and perform steps to confirm that the value of the investment is accurate, including consideration of impairment indicators.

Management comment

Waimate District Council will enter into discussions with Timaru District Council and Mackenzie District Council so all three parties can conclude the basis of their interest in the DWS and use this assessment to determine how the scheme is accounted for in the financial statements.

We acknowledge the recommendation around an assessment of the value of the investment and consideration of impairment.

4.2 Fair value and impairment assessments for property, plant and equipment

Finding

Management prepared a fair value assessment for three waters assets, which comprised a comparison between the depreciated replacement value of assets calculated by the AssetFinda system and the asset carrying amounts recorded in the general ledger. This accounted for changes in the scale and types of three waters assets over the two year period. The impact of inflation on these costs was considered separately but not formally documented.

For roading assets and land and buildings, management considered movements in contract prices, communication with experts, and knowledge of events during 2018/19, to conclude that there had been no material fair value movement. However, again this assessment was not formally documented.

Based on management's assessments as well as our own analysis of statistical indices, we gained sufficient assurance over the carrying values of revalued assets.

Similarly, upon our request, management prepared an impairment review of plant and equipment. This review, combined with verbal discussions and our own analysis, enabled us to gain sufficient assurance that no material impairment required to be recognised in the financial statements.

Recommendation

As reported in previous years, management's fair value assessments are formally documented to substantiate conclusions regarding fair value movements relative to asset carrying amounts in the financial statements, and to demonstrate compliance with the accounting standard.

Fair value assessments for assets valued on the basis of replacement cost need to include consideration of construction indices or similar, whereas construction indices (or similar) need to be consider for assets valued on the basis of replacement cost.

Similarly, going forward, management should prepare formally documented impairment reviews review prior to commencement of the audit.

Management comment

Council acknowledges the recommendation and will take steps to include consideration of construction indices as required, and formally document impairment reviews prior to the commencement of audit.

4.3 Quality Assurance (QA) review of draft council activities performance reporting**Finding**

The first draft of the council activities performance reporting did not appear to have gone through a rigorous quality process. Consequently, we identified a number of errors, including inconsistencies in reported results and incorrect prior year comparatives, as well as basic formatting issues.

It is good practice for the draft provided at the commencement of the audit to be scrutinised through an effective review process before release to the auditors.

Recommendation

Subject the draft council activities performance reporting to an effective review process before release to the auditors.

Management comment

Human resource shortages have adversely impacted data quality. Council has recently refilled two positions which has increased resource available to perform the necessary quality assurance checks in the future. Training is underway, and existing staff are being reminded that a high degree of precision is required when entering data in to AssetFinda.

5 Public sector audit



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

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

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

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

As part of the audit, we reviewed the Council's compliance with legislation relevant to the annual report. No instances of non-compliance were identified.

We also performed a high level review of expenditure relating to credit cards, travel, conferences, and training. No concerns regarding waste, probity or financial prudence were noted.

6 Key changes to the Government Rules of Sourcing



As from 1 October 2019, the new Government Procurement Rules (the Rules) come into force. The Rules are a revision of the previous third edition of the Government Rules of Sourcing and were approved by Cabinet in May. Much of the content is consistent with the third edition with some re-numbering of Rules. The new Rules and a table of rule changes can be found in this link [Table of Rule Changes](#). Entities should watch out for a few important changes noted below:

Government Procurement Charter

The new rules include a Charter for the first time. The Charter sets out the Government's expectations of how agencies should conduct their procurement activity to achieve public value. The Charter applies even when the Rules do not.

Broader outcomes

The new Rule 16 outlines a number of secondary benefits that it is seeking from the way in which procurement is conducted in the public sector. These secondary benefits relating to the costs and benefits to society, the environment and the economy are required to be considered (where appropriate) along with the whole of life costs of the procurement.

To maximise the effects of these priorities, the Government will be designating some contracts or sectors where the outcomes must be prioritised. These will be published at www.procurement.govt.nz.

Procurement planning

A new Rule 15 includes guidance and expectations related to procurement planning. Rule 22 has been amended so that significant procurement plans must be submitted to the Ministry of Business, Innovation, and Employment (MBIE) for review on request.

Threshold changes

The thresholds for when the Rules apply (contained in Rules 6 and 7) have been taken out of the Rules document and will now be found at www.procurement.govt.nz. We understand this is to facilitate changes in the thresholds as necessary, without a full change to the Government Procurement System (GPS). The immediate change is to the threshold for new construction works, which reduces from \$10 million in the current edition to \$9 million.

We encourage procurement staff to understand the changes, and prepare for their implementation by considering the changes that are required to the Council's procurement policies, procedures and practices.

7 Useful publications



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

Description	Where to find it
Client updates	
<p>In March 2019, we hosted a series of client updates. The theme was “Improving trust and confidence in the public sector”.</p> <p>These included speakers from both Audit New Zealand and external organisations.</p>	<p>On our website under publications and resources.</p> <p>Link: Client updates</p>
Model financial statements	
<p>Our model financial statements reflect best practice. They are a resource to assist in improving financial reporting. This includes:</p> <ul style="list-style-type: none"> • significant accounting policies are alongside the notes to which they relate; • simplifying accounting policy language; • enhancing estimates and judgement disclosures; and • including colour, contents pages and subheadings to assist the reader in navigating the financial statements. 	<p>On our website under publications and resources.</p> <p>Link: Model Financial Statements</p>
Client substantiation file	
<p>When you are fully prepared for an audit, it helps to minimise the disruption for your staff and make sure that we can complete the audit efficiently and effectively.</p> <p>We have put together a tool box called the Client Substantiation File to help you prepare the information you will need to provide to us so we can complete the audit work that needs to be done. This is essentially a tool box to help you collate documentation that the auditor will ask for.</p>	<p>On our website under publications and resources.</p> <p>Link: Client Substantiation File</p>

Description	Where to find it
Severance payments	
<p>Because severance payments are discretionary and sometimes large, they are likely to come under scrutiny. The Auditor-General has released updated good practice guidance on severance payments. The guide is intended to help public sector employers when considering making a severance payments to a departing employee. It encourages public organisations to take a principled and practical approach to these situations. The update to the 2012 good practice guidance reflects recent case law and changes in accounting standards.</p>	<p>On the OAG’s website under 2019 publications. Link: Severance payments</p>
Matters arising from the 2017/18 audits	
<p>The OAG has published a report on the results of the 2017/18 audits for the sector.</p>	<p>On the OAG’s website under publications. Link: Local Government</p>
Good practice	
<p>The OAG’s website has been updated to make it easier to find good practice guidance. This includes resources on:</p> <ul style="list-style-type: none"> • audit committees; • conflicts of interest; • discouraging fraud; • good governance; • service performance reporting; • procurement; • sensitive expenditure; and • severance payments. 	<p>On the OAG’s website under good practice. Link: Good practice</p>
Post-implementation reviews	
<p>The OAG have recently completed a review of Auckland Council’s post-implementation review process. While many aspects of the report are specific to Auckland Council, it documents the process that Auckland Council uses, and includes a post-implementation review checklist.</p>	<p>On the OAG’s website under publications. Link: Post-implementation review process</p>

Description	Where to find it
Reporting fraud	
<p>The OAG have released data from 2012-2018 on fraud in public entities. This includes how the fraud was detected, the type of fraud and the methods and reasons for the fraud. The graphs show the high-level sector, and this can be broken down further into sub-sectors by opening the spreadsheets available.</p>	<p>On the OAG’s website under data. Link: Reporting Fraud</p>

Appendix 1: Corrected misstatements

Corrected financial statements misstatements and disclosure deficiencies

Detail of disclosure deficiency
<p>Statement of Comprehensive Revenue and Expenditure</p> <p>"Financial assets at fair value through other comprehensive income" should be replaced with "Financial assets at fair value through other comprehensive revenue and expenditure" in accordance with PBE IPSAS 1.</p>
<p>Statement of Financial Position and Note 13 (Other Financial Assets)</p> <p>Reclassification of JV short term deposits from non-current to current.</p>
<p>Note 14 (Property, Plant and Equipment)</p> <p>Operational assets WIP and infrastructural assets WIP needs to be split out into opening WIP, additions, capitalisations/transfers, disposals, and closing WIP, rather than reported in aggregate.</p>
<p>Note 14 (Property, Plant and Equipment)</p> <p>The values in the narrative regarding the most recent revaluations are incorrect.</p>
<p>Note 20 (Public Debt)</p> <p>The wording "Weighted average effective interest rate" for the overdraft is not correct, because the rate disclosed is the rate per the bank confirmation, rather than being a weighted average.</p>
<p>Note 22 (Capital Commitments)</p> <p>Capital commitment of \$92,500 relating to the Swimming Pool Heating System Replacement to be recorded.</p>
<p>Note 26 (Employee Staffing Levels and Remuneration)</p> <p>FTE disclosure to be updated due to incorrect recording of one staff member's working hours in the calculation.</p>
<p>Note 28 (Financial Instrument Categories)</p> <p>Revenue in advance (RIA) needs to be removed from trade and other payables because RIA does not meet the definition of a financial instrument.</p> <p>Line item title to be revised to "Trade and other payables (excluding revenue in advance).</p> <p>Prior year comparative also to be corrected accordingly.</p>
<p>Note 28 (Financial Instrument Categories)</p> <p>Derivative line items can be deleted as all \$nil values. Also applies to the Statement of Financial Position. The associated accounting policy specific to derivatives can also be deleted.</p>

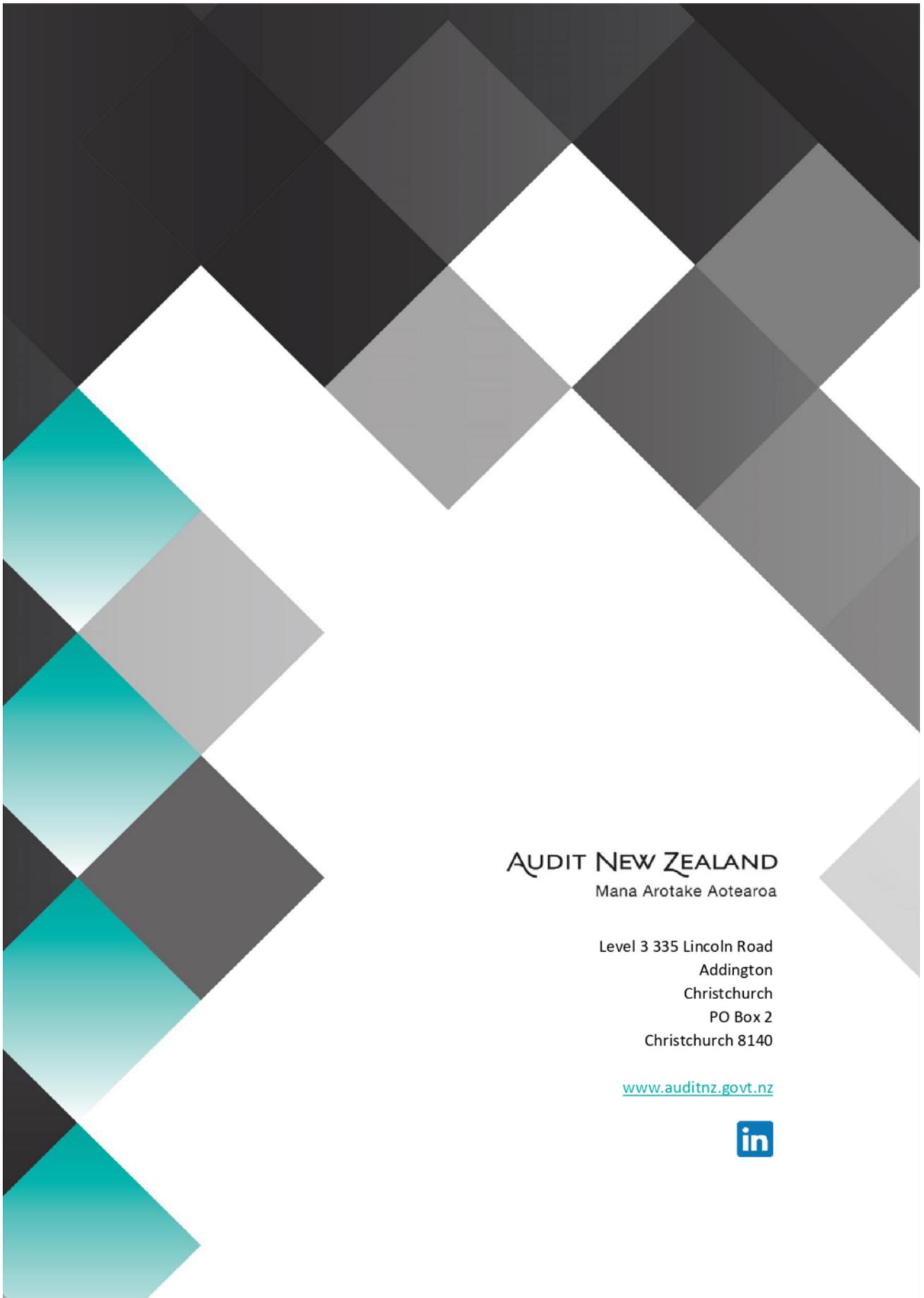
Detail of disclosure deficiency
<p>Statement of Accounting Policies – Changes in accounting policies</p> <p>The disclosure regarding changes to the useful lives of property, plant and equipment is incorrect because there have been no such changes during FY2019. This disclosure has been rolled forward from the prior year but is no longer relevant.</p>
<p>Statement of Accounting Policies – Changes in accounting policies</p> <p>Disclosure regarding accounting standards not yet adopted to be updated.</p>
<p>Format of Funding Impact Statements</p> <p>Council: The line item "General Rates and rates penalties" should include "uniform annual general charge" per form 5 of the Local Government (Financial Reporting and Prudence) Regulations 2014. Similarly, the line item "Local authority fuel tax, fines, infringements fees other" should be "Local authorities fuel tax, fines, infringement fees, and other receipts".</p> <p>Groups of Activities: Council has not correctly applied form 4 of the Local Government (Financial Reporting and Prudence) Regulations 2014. 2017/18 actual results have been included rather than 2017/18 LTP figures. The above line item wording also needs to be updated.</p>
<p>Benchmark graphs</p> <p>Operations Control Benchmark: The 2016/17 figure is currently 103%, but should be 110%.</p> <p>Essential Services Benchmark: The 2018/19 result should be 127 rather than 125 (impacted by DWS capex which has not been factored into formula per AR model).</p>
<p>Financial summary</p> <p>To be updated to reflect amended financial statement balances.</p>
<p>Other misstatements</p> <p>Various instances where the reversal of equity method accounting for DWS was not fully updated in version 4.</p>

Corrected performance reporting misstatements

Detail of misstatement
<p>Drinking water bacterial and protozoal compliance</p> <p>Reported results to be updated in accordance with the Drinking Water Assessor’s finalised compliance report.</p>
<p>Drinking water - Median attendance and resolution times for faults</p> <p>Median attendance time for urgent call outs should be 0:59 - which means target is achieved.</p> <p>Workings excluded two urgent faults which had incorrectly been included within non-urgent.</p>
<p>Roading - Smooth Travel Exposure</p> <p>The fact that the reported result is based on the latest road roughness survey completed in June 2018 needs to be disclosed.</p>
<p>Sewerage - Median attendance and resolution times for faults</p> <p>Median attendance time should be 0:12.</p> <p>Median resolution time should be 0:27.</p> <p>Wordings included faults which are outside the scope of this measure (as per DIA guidance).</p>
<p>Other misstatements</p> <p>Various errors including inconsistencies in reported results, incorrect prior year comparatives, and basic formatting issues.</p>

Appendix 2: Disclosures

Area	Key messages
Our responsibilities in conducting the audit	<p>We carried out this audit on behalf of the Controller and Auditor-General. We are responsible for expressing an independent opinion on the financial statements and performance information and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001.</p> <p>The audit of the financial statements does not relieve management or the Council of their responsibilities.</p> <p>Our Audit Engagement Letter contains a detailed explanation of the respective responsibilities of the auditor and the Council.</p>
Auditing standards	<p>We carried out our audit in accordance with the Auditor-General’s Auditing Standards. The audit cannot and should not be relied upon to detect all instances of misstatement, fraud, irregularity or inefficiency that are immaterial to your financial statements. The Council and management are responsible for implementing and maintaining your systems of controls for detecting these matters.</p>
Auditor independence	<p>We are independent of the Council in accordance with the independence requirements of the Auditor-General’s Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): <i>Code of Ethics for Assurance Practitioners</i>, issued by New Zealand Auditing and Assurance Standards Board.</p> <p>Other than the audit, we have no relationship with, or interests in, the Council</p>
Fees	<p>The audit fee for the year is \$91,095, as detailed in our Audit Proposal Letter.</p> <p>No other fees have been charged in this period.</p>
Other relationships	<p>We are not aware of any situations where a spouse or close relative of a staff member involved in the audit occupies a position with the Council that is significant to the audit.</p> <p>We are not aware of any situations where a staff member of Audit New Zealand has accepted a position of employment with the Council during or since the end of the financial year.</p>



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5.5 EXTERNAL AUDIT RECOMMENDATIONS PROGRESS UPDATE TO 31 OCTOBER 2019

Author: Tina Stevenson, Corporate Services Group Manager

Authoriser: Tina Stevenson, Corporate Services Group Manager

Attachments: 1. Progress Update on Audit NZ Management Report Recommendations [↓](#) 

PURPOSE

To provide the Audit and Risk Committee with a progress update on the Audit New Zealand Report recommendations, including the new recommendations from the Management Report for the Year Ending 30 June 2019.

RECOMMENDATION

That the External Audit Recommendations Progress Update to 31 October 2019 report is accepted.

Audit New Zealand Recommendations – Progress Report to 31 October 2019

Interim Management Report Recommendations for Year Ending 30 June 2018

AUDIT NEW ZEALAND			WAIMATE DISTRICT COUNCIL	
Recommendation	Current Status	Priority	Management’s Proposed Action	Progress Update
Accounting for property, plant and equipment				
<p>Strengthen internal controls around property plant and equipment:</p> <ul style="list-style-type: none"> 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. Implement a monitoring and write off process to account for the infrastructure assets that are replaced during the year. 	<i>Pending</i>	Necessary	<p>Management will ensure that, where possible, resources are employed to address the areas of highest risk with regard to stock-take, asset recs and write offs.</p>	<p>A stocktake of the IT equipment asset class was completed in 2018, and further classes of assets will be assessed as resourcing allows with priority given to asset classes of highest risk.</p> <p>Discussions are advancing with regards to a consistent and practical process which can be implemented.</p> <p>The Finance Team have obtained a better understanding of Asset Finda software in order to aid in the assessment of infrastructural assets for impairment as at 30 June each year. Further investigation into the RAMM software used for Roading assets is required. The development of a mechanism to capture disposals of</p>

AUDIT NEW ZEALAND			WAIMATE DISTRICT COUNCIL	
Recommendation	Current Status	Priority	Management's Proposed Action	Progress Update
				infrastructure assets replaced during the year is continuing.
Project and contract management				
<p>Consideration to be given to enhancing contract management and project management policies and practices.</p> <p>For contract management Council could:</p> <ul style="list-style-type: none"> having an overall policy outlining an organisationally consistent approach to contract management; more detailed reporting of contract monitoring to Council; 	<p>Pending</p> <p>No changes noted at our interim audit.</p>	<p>Beneficial</p>	<p>Policies around Contract Management are expected to be developed.</p> <p>Council have recently formalised the role of IT Project Manager whose core role is to apply Prince2 project methodologies to new and existing technology projects. Since tech projects represent a priority area for Council, we believe this represents a significant step in Project management maturity for Council.</p> <p>Independent QA (by Deloitte) was applied to the recent Performance Reporting & LTP system project. Council will continue to give consideration to independent QA where projects are deemed significant enough to justify this additional outlay.</p>	<p>With the understanding at this time, the risk has been considered and accepted by the Audit & Risk Committee.</p> <p>Council's contract for roading is the most significant and is governed by NZTA processes that result in independent review through collaboration.</p> <p>Council's major contracts are in the asset area and are monitored by the activity managers who report to the Asset Group Manger. Progress of major projects are reported to the Audit & Risk Committee and a quarterly report of projects from all areas of Council are included in the respective Council committee reports.</p>

AUDIT NEW ZEALAND			WAIMATE DISTRICT COUNCIL	
Recommendation	Current Status	Priority	Management's Proposed Action	Progress Update
<ul style="list-style-type: none"> ensure contract managers have sufficient skills and expertise to effectively manage contracts. This could be achieved by formal training and identification of training needs (i.e. structured instead of ad hoc); and complete a self-review to identify areas for improvement. <p>For project management Council's grading here could be improved by:</p> <ul style="list-style-type: none"> development of District Council wide formal project management practices; conduct of post implementation reviews on completed projects; consideration of independent quality assurance over projects; and 				Training has and is to be undertaken for the management of contracts written under NZS3910.
<ul style="list-style-type: none"> more comprehensive reporting and monitoring of projects by management and Council as discrete projects – rather than as part of monthly reports. 				

Management Report Recommendations for Year Ending 30 June 2018

AUDIT NEW ZEALAND			WAIMATE DISTRICT COUNCIL	
Recommendation	Current Status	Priority	Management’s Proposed Action	Progress Update
Alpine Energy Shares Valuation				
<ul style="list-style-type: none"> Ensure that Council engages an external expert to prepare a valuation of its shareholding in future years. 		Necessary	Management will consider its options with regards to the engagement of an external expert.	The process for the valuation of Alpine Energy Shares was discussed with the shareholders in conjunction with discussions with Audit NZ. It was agreed that one valuation would be obtained for all shareholders and this would be a Desktop Review. If a material movement in value was identified an independent valuation would be considered.
<ul style="list-style-type: none"> Ensure that the valuation is reviewed, either internally or externally, so that it is appropriate to use in the annual report. 			Management will consider a review of the valuation as appropriate, when there is sufficient cause or a significant movement in the valuation from the prior year.	

Interim Management Report Recommendations for Year Ending 30 June 2019

AUDIT NEW ZEALAND			WAIMATE DISTRICT COUNCIL	
Recommendation	Current Status	Priority	Management’s Proposed Action	Progress Update
Correctly Recording Incident in Asset Finda				
To ensure staff correctly enter information into Asset Finda the Waimate District Council should develop a handbook and educate staff on its use.	<i>Pending</i>	Necessary	Training for Utilities staff for the service request system. Production of a reference guide in order to prevent incorrect data entry in the future.	Additional training for utilities staff has been undertaken and staff now possess a much better understanding of the service request system. The training focus identified the issues highlighted and in particular focused on the fault/request type and the calculation of the appropriate response times.

Management Report Recommendations for Year Ending 30 June 2019

AUDIT NEW ZEALAND			WAIMATE DISTRICT COUNCIL	
Recommendation	Current Status	Priority	Management's Proposed Action	Progress Update
Downlands Rural Water Scheme				
<p>Assess whether the interest in DWS meets the definition of a joint arrangement, and if so whether it is a joint venture or a joint operation, or whether it is that of an associate.</p> <p>Design and perform steps to confirm that the value of the investment is accurate, including consideration of impairment indicators.</p>	Pending	Necessary	<p>Waimate District Council will enter into discussions with Timaru District Council and Mackenzie District Council so all three parties can conclude the basis of their interest in the Downlands Water Scheme and use this assessment to determine how the scheme is accounted for in the financial statements.</p> <p>We acknowledge the recommendation around an assessment of the value of the investment and consideration of impairment.</p>	<p>Initial discussion has commenced within the asset areas of the Councils and we will schedule meetings to progress accordingly.</p>
Fair Value and Impairment Assessments for property, plant and equipment				
<p>As reported in previous years, management's fair value assessments are formally documented to substantiate conclusions regarding fair value</p>	Pending	Necessary	<p>Council acknowledges the recommendation and will take steps to include consideration of construction indices as required, and formally document</p>	<p>This recommendation will be considered in conjunction with the preparation of the 2020 Annual Report and the fair value</p>

AUDIT NEW ZEALAND			WAIMATE DISTRICT COUNCIL	
Recommendation	Current Status	Priority	Management's Proposed Action	Progress Update
<p>movements relative to asset carrying amounts in the financial statements, and to demonstrate compliance with the accounting standard.</p> <p>Fair value assessments for assets valued on the basis of replacement cost need to include consideration of construction indices or similar, whereas construction indices (or similar) need to be consider for assets valued on the basis of replacement cost.</p> <p>Similarly, going forward, management should prepare formally documented impairment reviews review prior to commencement of the audit.</p>			impairment reviews prior to the commencement of audit.	assessments of assets as at balance date.
Quality Assurance (QA) review of draft council activities performance reporting				
Subject the draft council activities performance reporting to an effective review process before release to the auditors.	<i>Pending</i>	Necessary	Human resource shortages have adversely impacted data quality. Council has recently refilled two positions which has increased resource available to perform the necessary quality assurance checks in the future. Training is underway, and existing staff are being reminded that a high degree of precision is required when entering data in to AssetFinda.	The refilling of two positions has increased resourcing to increase quality assurance checks, along with training and reminders of expectations around precision.

5.6 2019/20 MAJOR PROJECT UPDATE

Author: Tina Stevenson, Corporate Services Group Manager

Authoriser: Tina Stevenson, Corporate Services Group Manager

Attachments: 1. 2019/20 Major Projects Update [↓](#) 

PURPOSE

The 2019/20 major project list as at 31 October 2019 is submitted for the information of the Audit and Risk Committee.

RECOMMENDATION

That the 2019/20 Major Project Update report is accepted.

2019/20 Major Project Report
As at 20 November 2018

Financial Year	Project	Project Description	Budget	Spend to Date	% Complete	Status		Comments / Issues / Risks / Reasons
						Time	Budget	
Water Supply								
2016/17 (carry forward)	Lower Waihao DWSNZ CAP funded upgrade	Planned project that will increase service levels for 2016/17	Subsidised	\$350,798	25%			The trial membrane plant was successful and the results have now been analysed. The bore appears to have been developed further through use and the fine particulate has greatly reduced meaning that the site may only require provision for a membrane unit rather than actually purchasing one as part of the project. To be carried over into 2019/20.
2019/20	Hook / Waituna - Drinking Water Intake/Plant Compliance Upgrade		\$399,300	\$0	0%			Carried over from 2018/19. Ultra filtration membrane trial has been undertaken. Selection of plant and configuration is underway.
2019/20	Lower Waihao - Drinking Water Intake/Plant Compliance Upgrade		\$800,200	\$10,838	1%			Carried over from 2018/19. A trial membrane plant was successful and the results have now been analysed. The bore appears to have been developed further through use and the fine particulate has greatly reduced meaning that the site may only require provision for a membrane unit rather than actually purchasing one as part of the project.
2019/20	Otaio / Makikihi - Tavistock Bore - Treatment Filter & UV		\$166,400	\$0	0%			Plan for a Medium Pressure UV to be put in for protozoal compliance.
2019/20	Waikakahi - Drinking Water Intake/Plant Compliance Upgrade		\$1,443,900	\$11,014	10%			Note, New Treatment Plant upgrade is on hold with the agreement of DWA until 2020/21 and clearer direction on legislation and standards. Investigation has started into alternate source. Consultant hired for design.
2019/20	Urban Water - Rising Main Renewals		\$219,992	\$0	0%			To be used for Urban pipe renewal
2019/20	Urban Water - Lateral Renewals		\$61,680	\$7,872	13%			Ongoing
2019/20	Urban Water - AC Water Main Renewals		\$223,080	\$37,698	17%			Contract 19/22 underway
2019/20	Urban Water - CI Water Main Renewals		\$336,780	\$47,442	14%			Contract 19/22 underway
2019/20	Urban Water - Manchester Road Bore Replacement		\$92,700	\$177,405	191%			Total combined budget allocation (with GL 5310760013) has been agreed up to \$780,000. Planned completion date 25 November 2019.
2019/20	Urban Water - Man Rd Plant - Treatment Filter & UV		\$99,400	\$245,028	247%			Total combined budget allocation (with GL 531076005) has been agreed up to \$780,000. Planned completion date 25 November 2019.
2019/20	Urban Water - Tim Rd Plant - Treatment Filter & UV		\$278,588	\$0	0%			Plan for a Medium Pressure UV to be put in for protozoal compliance.
Sewerage and Sewage								
2019/20	Investigate inflow and infiltration	Infiltration investigation from surface influences i.e. illegal storm water connections	\$6,169	\$0	0%			Ongoing. Total budget of \$17,476 under GL., which \$6,169 of is set aside for Investigate inflow and infiltration.
2019/20	Sewer - Waimate Urban Renewals		\$327,794	\$0	0%			Re-allocated to Queen Street Upgrade
2018/19	Sewer - Edward Street Upgrade (Renewal)		\$551,000	\$0	1%			Investigation started. Opus to model sewer network
Stormwater Drainage								
2019/20	Stormwater - Consent & Management Plan		\$30,000	\$110,024	367%			The draft stormwater management plan is all but complete and work is now complete on the assessment of environmental effects. This assessment is a core requirement of the consenting process. Staff are reviewing final documentation before lodgement for consent. ECan have provided an extension for Waimate and many other District Councils. Original budget \$140k
2019/20	Stormwater - Queen Street Upgrade		\$133,640	\$14,255	11%			Investigation into options
Parks and Reserves								
2019/20	Victoria Park - Pavilion Upgrade	Demolition of old pavilion and building of new covered area	\$130,000	\$0	50%			Demolition complete as at 8/11/19. New structure will be completed by mid December. Plans are being developed for the picnic area layout (tables and seating).

Financial Year	Project	Project Description	Budget	Spend to Date	% Complete	Status		Comments / Issues / Risks / Reasons
						Time	Budget	
2018/19 (carry forward)	Waitaki Lakes - Chlorine Dosing UV	Increase water quality standard at Waitangi	\$48,000	\$0	5%			In progress
2019/20	Waitaki Lakes - Chlorine Dosing UV	Increase water quality standard at Te Aka	\$31,000	\$0	0%			To be carried out at the end of the 2019/20 camping season.
Property								
2018/19	Waimate Library extension		\$1.4m	Nil	0%			Delayed due to investigation into Library / LGC redevelopment proposal
2019/20	Asbestos Removal - Local Government Centre		\$33k	Nil	50%			Underway. Further \$6,000 for removal at 4 - 6 Gorge Road
2016/17 (carry forward)	Public toilets (new) Waimate town and review of District toilets		\$200k	Nil	0%			Investigation and option presentation delayed due to Library project options

Status Key:

	On track with time / budget for completion within the plan year
	High Risk (budget and/or timeframe)
	Some risk (budget and/or timeframe) - Highlight issues in comments
	Not started / External to Council

PUBLIC EXCLUDED

6 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
<p>6.1 - Corporate Services Group Manager Report - Public Excluded</p>	<p>s7(2)(c)(ii) - the withholding of the information is necessary to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely otherwise to damage the public interest</p> <p>s7(2)(h) - the withholding of the information is necessary to enable Council to carry out, without prejudice or disadvantage, commercial activities</p>	<p>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</p>

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