



# AGENDA

## RĀRANGI TAKE

NOTICE OF AN ORDINARY MEETING OF

# FINANCE, AUDIT AND RISK COMMITTEE

to be held on **Thursday 25 July 2019** commencing at **10.00 am**  
in the Council Chambers, 36 Weld Street, Hokitika

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Chairperson: Cr Martin (Deputy)

Members: His Worship the Mayor

Cr Carruthers

Cr Havill ONZM

Cr Olson

Kw Tumahai (or Representative)

Kw Rasmussen

Cr Lash (Deputy)

Cr Eatwell

Cr Neale

Cr Routhan

Kw Rochford (or Representative)

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# Council Vision:

We work with the people of Westland to grow and protect our communities, our economy and our unique natural environment.

## Purpose:

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

- (a) To enable democratic local decision-making and action by, and on behalf of, communities; and
- (b) To promote the social, economic, environmental, and cultural well-being of communities in the present and for the future.

### **1. KARAKIA TĪMATANGA OPENING KARAKIA**

Kia hora te marino  
Kia whakapapa pounamu te moana  
Hei hurahai mā tātou  
I te rangi nei  
Aroha atu, aroha mai  
Tātou i a tātou katoa  
Hui e! Tāiki e!

May peace be widespread  
May the sea be like greenstone  
A pathway for us all this day  
Give love receive love  
Let us show respect for each other  
Bind us all together!

### **2. NGĀ WHAKAPAAHA APOLOGIES**

(includes leave of absence notification)

### **3. WHAKAPUAKITANGA WHAIPĀNGA DECLARATIONS OF INTEREST**

Members need to stand aside from decision-making when a conflict arises between their role as a Member of the Council and any private or other external interest they might have. This note is provided as a reminder to Members to review the matters on the agenda and assess and identify where they may have a pecuniary or other conflict of interest, or where there may be a perception of a conflict of interest.

If a member feels they do have a conflict of interest, they should publicly declare that at the start of the meeting or of the relevant item of business and refrain from participating in the discussion or voting on that item. If a member thinks they may have a conflict of interest, they can seek advice from the Chief Executive or the Group Manager: Corporate Services (preferably before the meeting). It is noted that while members can seek advice the final decision as to whether a conflict exists rests with the member.

### **4. NGĀ TAKE WHAWHATI TATA KĀORE I TE RĀRANGI TAKE URGENT ITEMS NOT ON THE AGENDA**

Section 46A of the Local Government Official Information and Meetings Act 1987 states:

- (7) An item that is not on the agenda for a meeting may be dealt with at the meeting if –
- (a) the local authority by resolution so decides, and
  - (b) the presiding member explains at the meeting at a time when it is open to the public, –
    - (i) the reason why the item is not on the agenda; and
    - (ii) the reason why the discussion of the item cannot be delayed until a subsequent meeting.
- (7A) Where an item is not on the agenda for a meeting, –
- (a) that item may be discussed 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
  - (b) 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.

### **5. NGĀ MENETI O TE HUI KOMITI MINUTES OF COMMITTEE MEETING**

Minutes were circulated separately.

### **6. PŪRONGO KAIMAHI STAFF REPORTS**

- Interim Audit Management Report 2018-19 (Pages 6 - 35)
- Finance, Audit and Committee Workplan – July 2019 (Page 36)

## 7. WORKPLAN

## 8. KA MATATAPU TE WHAKATAUNGA I TE TŪMATANUI RESOLUTION TO GO INTO PUBLIC EXCLUDED

(to consider and adopt confidential items)

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

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

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

<b>Item No.</b>	<b>General subject of each matter to be considered</b>	<b>Reason for passing this resolution in relation to each matter</b>	<b>Ground(s) under Section 48(1) for the passing of this resolution</b>
<b>1.</b>	Confidential Minutes – 27 June 2019	Good reasons to withhold exist under Section 7	That 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 or withholding exists.  Section 48(1)(a)
<b>2.</b>	Risk Register	Good reasons to withhold exist under Section 7	That 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 or withholding exists.  Section 48(1)(a)
<b>3.</b>	Health and Safety Initiatives	Good reasons to withhold exist under Section 7	That 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 or withholding exists.  Section 48(1)(a)

<b>Item No.</b>	<b>General subject of each matter to be considered</b>	<b>Reason for passing this resolution in relation to each matter</b>	<b>Ground(s) under Section 48(1) for the passing of this resolution</b>
<b>4.</b>	Westroads Ltd Funding Request	Good reasons to withhold exist under Section 7	That 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 or withholding exists.  Section 48(1)(a)

This resolution is made in reliance on sections 48(1)(a) of the Local Government Official Information and Meetings Act 1987 and the particular interests or interests protected by section 7 of that Act, which would be prejudiced by the holding of the relevant part of the proceedings of the meeting in public area as follows:

<b>Item No.</b>	<b>Interest</b>
<b>1 &amp; 2</b>	Protect the privacy of natural persons, including that of deceased natural persons (Schedule 7(2)(a))
<b>2.</b>	Maintain legal professional privilege (Schedule 7(2)(g))
<b>2.</b>	Avoid prejudice to measures protecting the health or safety of members of the public (Schedule 7(2)(d))  Would be likely otherwise to damage the public interest (Schedule 7(2)(c))
<b>3.</b>	Protect the privacy of natural persons, including that of deceased natural persons (Schedule 7(2)(a))
<b>4.</b>	Enable any local authority holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations) (Schedule 7(2)(i))

**DATE OF NEXT MEETING – 22 AUGUST 2019**

**ARAHURA MARAE, OLD CHRISTCHURCH ROAD, ARAHURA**

# Report



**DATE:** 25 July 2019

**TO:** Finance, Audit and Risk Committee

**FROM:** Group Manager: Corporate Services

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## INTERIM AUDIT MANAGEMENT REPORT YEAR ENDED 30 JUNE 2019

### 1 SUMMARY

- 1.1 The purpose of this report is to present the Interim Audit Management Report (attached as **Appendix 1**) for the year ended 30 June 2019.
- 1.2 The report is written by Scott Tobin, Audit Director for Audit New Zealand and has been reviewed by Council management. Observations and comments from both are contained within the report.
- 1.3 Council seeks to meet its obligations under the Local Government Act 2002 and the achievement of the District Vision adopted by the Council in May 2018, which will be set out in the next Long Term Plan 2018-28. These are stated on Page 2 of this agenda.
- 1.4 This report concludes by recommending that the Committee receive the Interim Audit Management Report for the year ending 30 June 2019.

### 2 BACKGROUND

- 2.1 Interim Audit Management Reports are provided annually to Council with findings from the interim audit and updates on previous recommendations.
- 2.2 In the first instance, the CE and Group Manager: Corporate Services receives a draft report for staff to provide a response to the comments. This then enables elected members to receive a full report on the issues and recommendations and the action being taken by staff to address them.

### 3 CURRENT SITUATION

- 3.1 The interim report has identified one new recommendation on Bribery and Corruption, this has been identified as a key focus area across all clients for 2019. This has been classified by Audit NZ as necessary. Council has already included this area as part of the fraud control improvements undertaken.
- 3.2 Out of the 23 previous recommendations 16 necessary recommendations and 2 beneficial recommendations remain open. It is likely some of these will be closed after confirmation of completion through the final audit process. Five necessary recommendations have been closed.
- 3.3 Audit NZ acknowledged that the information requirements were received on time and were of good quality.
- 3.4 Staff have been provided with information requirements for the final audit and are treating the audit as a project with a project plan and timeline to ensure that deadlines are met.
- 3.5 The Finance team also acknowledge that the interim audit went well from Council perspective, and the relationship with Audit NZ is good.

### 4 OPTIONS (WITH ANALYSIS)

- 4.1 The Committee can decide to receive or not receive the report. There are no financial implications to receiving the report.

### 5 SIGNIFICANCE AND CONSULTATION

- 5.1 This report is for information and deemed to be of low significance. No consultation is required.

### 6 RECOMMENDATION

- A) **THAT** the Committee receives the Interim Audit Management Report for the year ended 30 June 2019.

**Lesley Crichton**  
**Group Manager: Corporate Services**

**Appendix 1:** Interim Audit Management Report 30 June 2019

# Report to the Council on the interim audit of

Westland District Council

For the year ended 30 June 2019



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## Key messages

We have completed our interim audit for the year ended 30 June 2019. This report sets out our findings from the interim audit.

### **Purpose and scope of our interim audit**

The primary objective of our interim audit was to update our understanding of the Council's control environment and systems of internal control relevant to the audit. We have documented and tested controls within Council's key financial systems and will use the results of this work to determine the audit approach for our final audit. Where we have noted matters which we believe would improve the effectiveness of the internal control environment, we have commented on these within this report.

During the interim visit, we also reviewed the non-financial systems that Council has in place to report against its measures and targets set out in its 2018-28 Long-term Plan. Our review also covered the systems that support the mandatory performance measures that Council are required to report on.

### **Interim findings and key matters for the final audit**

During our interim audit we only identified one new recommendation to bring to your attention. This relates to considering the risks around bribery and corruption which is a key focus area across all our clients in 2019.

We are pleased to note good progress in relation to a number of our recommendations raised in prior years. We have provided further details on the status of these recommendations in Appendix 1. We will follow up on progress and report against the matters still outstanding following completion of our final audit for the year ended 30 June 2019.

Our interim audit confirmed that controls were operating throughout the period for expenditure and payroll. This means we are able to adopt the most efficient approach to testing these key transaction streams at our final audit.

The key matters for our final audit are consistent with those outlined in our audit plan. These include:

- the revaluation of Council's infrastructure assets;
- assessment of the carrying values of other property, plant and equipment (PPE);
- the impact of the March 2019 flooding events on the financial statements and statement of service performance;
- the rates setting process for 2019/20; and
- the consolidation of the Westland District Council group.

Where appropriate to do so at this stage of the audit, we comment on these items in more detail in the report.

### **Thank you**

We would like to thank management and staff for the assistance they have provided to us during the planning and interim stages of our audit.

A handwritten signature in black ink, appearing to read "S. Tobin". The signature is fluid and cursive, with a long horizontal line extending from the top of the first letter.

Scott Tobin  
Appointed Auditor  
2 July 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 recommendations.

Explanation	Priority
<p><b>Needs to be addressed <i>urgently</i></b></p> <p>These recommendations relate to a significant deficiency that exposes the Westland District Council to significant risk or for any other reason need to be addressed without delay.</p>	Urgent
<p><b>Address at the earliest reasonable opportunity, <i>generally within six months</i></b></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><b>Address, <i>generally within six to 12 months</i></b></p> <p>These recommendations relate to areas where the Westland District 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><b>Bribery and corruption</b></p> <p>Formally consider the risk of bribery and corruption as part of the continued efforts to develop the fraud control framework and associated policies and processes.</p>	Section 3	Necessary

## 1.2 Status of previous recommendations

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

Priority	Priority			
	Urgent	Necessary	Beneficial	Total
Open (including matters that will be followed up during our final audit visit)	0	16	2	18
Implemented or closed	0	5	0	5
<b>Total</b>	<b>0</b>	<b>21</b>	<b>2</b>	<b>23</b>

## 2 Assessment of internal control



The Council, with support from management, is responsible for the effective design, implementation, and maintenance of internal controls. In our interim audit, we considered the internal control relevant to preparing the financial statements and the service performance information. We reviewed internal controls relevant to the audit to design audit procedures that are appropriate in the circumstances. Our findings related to our normal audit work, and may not include all weaknesses for internal controls relevant to the audit.

### 2.1 Control environment

The control environment reflects the overall attitudes, awareness and actions of those involved in decision-making in the organisation. It encompasses the attitude towards the development of accounting and performance estimates and its external reporting philosophy, and is the context in which the accounting system and control procedures operate. Management, with the oversight of those charged with governance, need to establish and maintain a culture of honesty and ethical behaviour through implementation of policies, procedures and monitoring controls. This provides the basis to ensure that the other components of internal control can be effective.

We performed a high level assessment of the control environment, risk management process, and monitoring of controls relevant to financial and service performance reporting. We considered the overall attitude, awareness, and actions of the Council and management to establish and maintain effective management procedures and internal controls.

Our review of Council's broader control environment included the following areas:

- budgeting and monitoring procedures;
- governance;
- risk management; and
- arrangements to manage the risks from conflicts of interest.

Other areas of Council's broader control environment include procurement and contract management and asset management. As outlined in our audit plan, procurement is a theme within the OAG's 2018/19 work programme. This has been commented on further within section 3 of this report.

Council is continuing to develop its control environment, examples include:

- adopting a procurement policy in August 2018;
- progressing the fraud framework; and

- continuing to complete key 'business as usual' processes such as periodic financial and non-financial reporting to Council as well as maintaining systems of internal control (refer to section 2.2 of this report).

Progress in implementing our recommendations has been good considering the Council has only been able to address historic capacity issues in the 2019 financial year, and has had the significant recent flooding event to respond to. There is a clear desire to improve.

Legacy issues, such as the procurement process around the Franz Josef Stopbank, and the associated Ministerial request for information, continue to take the Council time to progress.

## **2.2 Internal controls**

Internal controls are the policies and processes that are designed to provide reasonable assurance as to the reliability and accuracy of financial and non-financial reporting. These internal controls are designed, implemented and maintained by the Council and management.

We reviewed the internal controls, in your information systems and related business processes. This included the controls in place for your key financial and non-financial information systems.

### **2.2.1 Financial reporting systems**

The key systems that we reviewed included:

- payroll;
- expenditure/accounts payable;
- cash receipting;
- revenue/accounts receivable, including rates and NZTA subsidies;
- treasury management systems, including investment and debt management;
- general financial systems, including journals; and
- property, plant and equipment assets including infrastructure, operational assets and vested assets.

We tested the operational effectiveness of controls over expenditure, payroll and the reconciliation of bank accounts and key general ledger accounts. Our testing found that the key controls have operated effectively to date. We plan to rely on these controls to gain audit assurance over these account balances for the year ended 30 June 2019.

We did not identify any new issues to bring to your attention.

## 2.2.2 Service performance reporting systems

We reviewed the Council's systems and controls for reporting its service performance information. We focused on understanding whether there were appropriate systems in place to accurately report against those measures that we consider are key to providing the community with an understanding of the Council's overall performance.

Service performance information is the key means through which the Council can be transparent to the community about its performance. The service performance information shows how it is performing against the levels of services agreed in the Long Term Plan (LTP), for the range of services it provides to the community.

We reviewed the following areas of the Council's performance framework. In these areas we focussed on the systems that support the service performance measures and targets.

The performance measures we reviewed include:

- compliance with drinking water standards (parts 4 and 5);
- customer satisfaction with drinking water and wastewater;
- the number of dry weather sewerage overflows;
- compliance with resource consents for discharge from the sewer system;
- the number of flooding events that occur in a Territorial Authority district;
- the number of fatalities and serious injury crashes on the local road network; and
- road smoothness measured by smooth travel exposure.

We did not identify any new issues to bring to your attention. Issues raised in previous years that remain open are discussed in Appendix 1. We will follow these up in our final audit.



### 3 Risks identified in the audit plan



The specific risk areas that we are paying particular attention to this year were outlined in our audit plan dated 20 May 2019. Based on our work to date, we comment on the status of the following areas:

Risk/issue	Current status
<p><b>Infrastructure asset valuations</b></p>	<p><b>In progress</b></p> <p>The Council will be completing a combination of in-house and external valuations for the current financial year. Council have teamed up with Buller District Council to undertake the 3 waters valuations, while engaging Beca to peer review these. Council have also engaged Beca to perform the roading valuation and a timetable has been put in place for this.</p> <p>Management are expecting to receive a draft copy of the valuation reports in early July and expect to perform a QA review before providing these to audit. Our aim is to commence our review of the valuation in July to ensure that any issues are identified before the final audit begins.</p> <p>The 2018-28 LTP received a qualified opinion around the renewal forecasts for 3 water assets, linked to poor underlying information. We need to assess the impact of that qualification and the underlying information on the year-end valuations.</p> <p>It is critical that management consider the following areas with the valuers as part of the revaluation process:</p> <ul style="list-style-type: none"> <li>• How did the Council (or valuer) ensure the asset records were complete?</li> <li>• What controls were used to ensure all assets are valued and recorded?</li> <li>• What internal controls operated to ensure the validity of revaluation data and key assumptions?</li> <li>• How were values determined?</li> <li>• What supporting documentation is available?</li> <li>• How has the age and condition of the assets been determined, and how has this been reflected in the determination of the remaining useful life?</li> <li>• What is the confidence in the underlying data and what do any data gaps or assumptions mean for the resulting valuation?</li> <li>• Has consideration been given to assets which are not meeting their design lives or design specifications? How</li> </ul>

Risk/issue	Current status
	<p>have remaining useful lives for such assets been determined?</p> <ul style="list-style-type: none"> <li>• What assets are impacted by the flooding events and what condition are they in at 30 June 2019? Will these be included or excluded from the valuation?</li> <li>• Was there any limitation of scope or other issues in relation to revaluation of assets</li> </ul> <p>Any potential issues should be communicated to us as soon as possible.</p>
<p><b>Fair value and impairment assessments</b></p>	<p><b>In progress</b></p> <p>The Council's land and buildings asset classes were last revalued as at 30 June 2018. We will review Council's fair value assessment to understand any material difference between the carrying and fair values.</p> <p>This assessment will be prepared and reviewed after 30 June 2019.</p>
<p><b>Recent flooding events</b></p>	<p><b>In progress</b></p> <p>We have held initial discussions with management to understand the implications both from a financial and non-financial performance reporting perspective.</p> <p>Management intend to liaise with the infrastructure valuer from Beca to understand the implications for the infrastructure valuation. This will include considerations around impairment for any assets yet to be remediated at balance date.</p> <p>Grant funding has also been agreed with various government agencies to contribute to the clean-up process. Based on discussion, there are no accounting complexities with these grants.</p> <p>We will follow up on the implications of the flooding at our final audit visit.</p>
<p><b>The risk of management override of internal controls</b></p>	<p><b>In progress</b></p> <p>We reviewed the Council's internal controls and control environment as part of the interim audit. Refer to section 2 of this report for further detail.</p> <p>We will continue to maintain a watching brief to identify any instances of management override of controls.</p> <p>As part of our final audit visit we will perform detailed testing over the areas highlighted in the audit plan.</p>

Risk/issue	Current status
<p><b>Statement of service performance</b></p>	<p><b>In progress</b></p> <p>We have reviewed the Council's systems and controls for reporting its service performance information. We have also followed up on recommendations made in previous years – refer to Appendix 1 for further detail.</p> <p>We will review the performance report at our final audit visit.</p>
<p><b>Rates</b></p>	<p><b>In progress</b></p> <p>We have reviewed the Council's systems and controls for maintaining compliance with the Local Government (Rating) Act 2002, and followed up on recommendations made in previous years – refer to Appendix 1 for further detail.</p> <p>Our rates testing focusses on both the rates setting process for the current period as well as the upcoming financial year. This enables us to identify any issues around the time the rates are struck. We considered the rates setting process for 2018/19 as part of our previous year's audit and found no issues.</p> <p>We will review the 2019/20 rates resolution as part of our final audit.</p>
<p><b>Consolidation for Westland District Council group</b></p>	<p><b>Not started</b></p> <p>This will be considered as part of our final audit.</p>
<p><b>Bribery and corruption</b></p>	<p><b>Complete</b></p> <p>We made enquires of management to determine what controls are in place to reduce the risk of wrongdoing, particularly bribery and corruption in the public sector.</p> <p>We also updated our understanding around any specific policies adopted that cover bribery and corruption.</p> <p>The Council was subject to a fraud review by PwC in 2017 and a final report was provided to management in 2018/19. Several recommendations were made to improve the fraud control framework and management have taken steps to address these recommendations including:</p> <ul style="list-style-type: none"> <li>• Updating the fraud policy.</li> <li>• Developing a fraud control framework.</li> <li>• Implementing a whistleblower hotline and associated policy.</li> <li>• Adopting a staff conflict of interest policy.</li> </ul>

Risk/issue	Current status
	<p>While the PwC review did not specifically focus on bribery and corruption, elements of the steps taken by management do address aspects of the risk of bribery and corruption.</p> <p><b>Recommendation</b></p> <p>We understand that this will be an ongoing focus for management and recommend that bribery and corruption is formally considered as part of this process.</p> <p><b>Management comment</b></p> <p><i>Management will consider necessary steps to include bribery and corruption.</i></p>
<p><b>Procurement</b></p>	<p><b>In progress</b></p> <p>In March 2019 the OAG released their findings from the inquiry around the procurement processes for the Franz Josef stopbank. Following the release of the report, the Minister of Local Government requested further information on Council's procurement processes. Council is working with LGNZ to respond to this request. We will follow up on the progress of this response at our final audit.</p>

## 4 Other matters

### 4.1 Quality and timeliness of information provided for audit



Management is required to provide information for audit. We provided a listing of information we required to management on 29 April 2019. This included the dates we required the information to be provided to us.

The information was provided in line with the required timeframes and was of a good quality. This enabled the audit team to make an efficient start to the interim audit.

Prior to the final audit visit, we will put together a detailed listing of information that we will require to complete the audit. This listing will be tailored to address the audit risks, specific account balances and transactions of the Westland District Council. The timely completion of the information identified in this listing prior to our audit visit will assist us in performing an efficient audit.

## 5 Useful publications



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

Description	Where to find it
<b>Client updates</b>	
<p>In March and April 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: <a href="#">Client updates</a></p>
<b>Model financial statements</b>	
<p>Our model financial statements reflect best practice we have seen to improve financial reporting. This includes:</p> <ul style="list-style-type: none"> <li>• significant accounting policies are alongside the notes to which they relate;</li> <li>• simplifying accounting policy language;</li> <li>• enhancing estimates and judgement disclosures; and</li> <li>• including colour, contents pages and subheadings to assist the reader in navigating the financial statements.</li> </ul>	<p>On our website under publications and resources.</p> <p>Link: <a href="#">Model Financial Statements</a></p>
<b>Tax matters</b>	
<p>As the leading provider of audit services to the public sector, we have an extensive knowledge of sector tax issues. These documents provide guidance and information on selected tax matters.</p>	<p>On our website under publications and resources.</p> <p>Link: <a href="#">Tax Matters</a></p>
<b>Data in the public sector</b>	
<p>The Office of the Auditor-General (the OAG) has published a series of articles about how data is being used in the public sector. These cover:</p> <ul style="list-style-type: none"> <li>• functional leadership;</li> </ul>	<p>On the OAG’s website under publications.</p> <p>Link: <a href="#">Data in the public sector</a></p>

Description	Where to find it
<ul style="list-style-type: none"> <li>• building capability and capacity;</li> <li>• collaboration; and</li> <li>• security.</li> </ul>	
<b>Audit Committees</b>	
The OAG has released various best practice information on Audit Committees.	On the OAG’s website under “Our Work – Audit Committee Resources” Link: <a href="#">Audit Committee Resources</a>
<b>Infrastructure as a Service</b>	
The OAG has completed a performance audit on Infrastructure as a Service and considered whether the benefits are achieved.	On the OAG’s website under publications. Link: <a href="#">Infrastructure as a Service</a>

## Appendix 1: Status of previous recommendations

### Implemented or closed recommendations

Recommendation	First raised	Status
<b>Rates</b>		
<ul style="list-style-type: none"> <li>Put processes in place to ensure compliance of rates setting and collection processes with legislation.</li> <li>An independent check of rates calculations be performed to ensure that they are accurate.</li> <li>A control be put in place to ensure that the rates levied are consistent with the rates resolution.</li> </ul>	2017/18	<p>Council now uses the IBIS rates modelling system to provide rates calculations and checks against the MagiQ system. The 2018/19 rates resolution was reviewed after using this system and agreed as correct.</p> <p>The IBIS rates modelling system provides a check on the data used for the rates resolution and this is performed as part of the review process.</p>
<b>Super user access</b>		
The current super user access rights should be reviewed and employees who do not require system admin access removed.	2017/18	Only two IT staff have super user access rights and the system providers have two logins to enable system support. No other logins have a super user access.
<b>Appointment of Directors to subsidiaries</b>		
<ul style="list-style-type: none"> <li>The Group needs to review its director appointment procedures and documentation, to ensure these are aligned with the constitutions and seek any legal advice as required.</li> <li>Consideration should be given to whether ratification of appointments are required.</li> <li>The Group needs to review its procedures around meetings and ensure the rights to participate and vote on matters at the meetings comply with the constitutions.</li> </ul>	2017/18	<p>The historic appointments have been ratified by the Board of Westland Holdings Limited.</p> <p>The constitutions have been reviewed by the CCO's to ensure that meetings comply with the constitutions. Westroad's constitution has been amended to ensure consistency with other CCO's.</p>
<b>Staff interest register not up to date</b>		
Ensure that the completion of the staff conflict of interest declarations is	2017/18	The Council interest register is circulated at every meeting. It is the



Recommendation	First raised	Status
mandatory and non-completion should be followed up.		responsibility of Councillors to update the register. A follow up process for staff has been implemented, and the process now provides for the staff interest register to be circulated biannually. The intention is that this process can be managed through the new HR system once implementation is complete.  A new Staff Conflict of interest policy has been developed and adopted by the FAR Committee to support the register. Staff had to acknowledge that they had received and read the policy.
<b>Compliance with resource consents</b>		
Improve the knowledge gap regarding the systems and processes for monitoring compliance with the Council's resource consents.	2017/18	Staff involved in this process have now been in their roles for over a year. Knowledge in this area has improved.

## Open recommendations

Recommendation	First raised	Status
<b>Necessary</b>		
<b>Preparation for audit</b>		
<ul style="list-style-type: none"> <li>A quality review of the draft annual report be performed before it is provided for audit.</li> <li>A complete substantiation file be produced to support the information in the Annual Report.</li> <li>Review year-end adjustments and the completeness and accuracy of accruals and changes to provisions.</li> </ul>	2017/18	To be followed up at final.  <b>Management comment</b>  <i>With Audit NZ having provided a detailed list of year-end audit information requests and our new reporting system, management feel better prepared to meet the timelines including a full review of both the document and the elements of the year end accounts.</i>
<b>Asset condition information and asset management</b>		
<ul style="list-style-type: none"> <li>The Council continues to improve its asset information.</li> </ul>	2017/18	The condition assessment of assets is still in its early stages and as such the benefit of using the data for these valuations is limited. This does highlight some risk for Council in relation to the

Recommendation	First raised	Status
<ul style="list-style-type: none"> <li>Ensure the condition information is considered as part of the 2018/19 infrastructure valuations.</li> <li>Work to address the shortcoming in the current asset management practises, as identified through the LTP process.</li> </ul>		<p>confidence levels and value of using the current information.</p> <p>It is expected that this information will be much improved in three years' time.</p> <p><b>Management comment</b></p> <p><i>We agree with the Audit comments regarding the limitations of the existing condition data. As such we have considered these but decided to exclude from this current valuation because of the limitations. Improvements are being made in this area including pipe condition testing/validation, cctv surveys and visual assessments.</i></p>
<b>Assets and asset revaluation</b>		
<ul style="list-style-type: none"> <li>All assets within a class should be revalued to ensure compliance with accounting standards. This includes assets in subsidiaries.</li> <li>Consider aggregating and revising the existing asset classes for land and buildings.</li> <li>Management carry out regular reviews of the fixed assets register (FAR) to confirm the existence and ownership of assets.</li> <li>Management need to improve the in-house fair value assessment in 2019.</li> <li>Infrastructure assets be revalued in 2019.</li> </ul>	2017/18	<p>Infrastructure assets are being revalued at year end. Council's policy is to revalue all infrastructure assets except for land under roads.</p> <p>Land and Buildings asset classes will be revised as part of next revaluation, expected by the 2020/21 financial year.</p> <p>The FAR has been reviewed to identify any further assets that are not owned by the Council. Potential issues have been raised and cleared by management.</p> <p><b>Management comment</b></p> <p><i>Infrastructure revaluation is currently on track for completion in July 2019 with assistance from Beca for parts of the process. We are also collaborating with Buller DC for comparison/validation of unit rates as part of this whole project.</i></p>
<b>Service request system</b>		
<ul style="list-style-type: none"> <li>Implement systems and controls to ensure the information recorded in the service request system is complete and accurate.</li> <li>Implement clear guidance outlining what constitutes a customer</li> </ul>	2017/18	<p>The current service request system is very cumbersome in entering a response time, arrival on site time and close off time. The Assetfinda system is being developed for use in this area, however this will take some time and is not yet available.</p>

Recommendation	First raised	Status
<p>complaint in line with DIA requirements.</p> <ul style="list-style-type: none"> <li>Refer to table below for details of findings.</li> </ul>		<p>Guidance has been developed that assists staff to identify what amounts to a complaint and how this should be recorded in the service request system. We note that there are two items in the guidance that are not consistent with DIA requirements – water leaks and toby faults. The guidance will need to be amended to address the errors as this impacts directly on the water supply customer satisfaction measure.</p> <p><b>Management comment</b></p> <p><i>Some changes in internal processing of service requests have been made in order to expedite processing. We are also continuing to develop the Assetfinda system and planning to implement Assetfinda Service requests through the Maintenance contracts. This will also facilitate removal of the MagiQ system from the Contractors for those areas. Initial training has been carried out.</i></p>
<b>Traffic counts</b>		
<p>As part of the new arrangements with Beca, the Council put in place an appropriate, formal traffic count programme for calculating smooth travel exposure reporting.</p>	2017/18	<p>Beca have created a cyclic program for traffic counting that Council have been working through with Westroads. Council have also purchased four new counters that will enhance and replace some of their aging unit.</p> <p>We will follow up on this at year end.</p> <p><b>Management comment</b></p> <p><i>Beca have provided a more comprehensive traffic counting programme which we are working through with the contractors for efficient delivery of this service within the Roading Maintenance Contract.</i></p>
<b>NZTA claim process</b>		
<ul style="list-style-type: none"> <li>Improve the process for compiling NZTA subsidy claims to ensure they align to the GL.</li> </ul>	2017/18	<p>Work in this area is progressing. A project lead has been appointed and is looking to put in place a workable</p>

Recommendation	First raised	Status
<ul style="list-style-type: none"> <li>Introduce an independent, evidenced review of the claim before it is submitted.</li> </ul>		<p>solution that addresses our recommendations.</p> <p>Similar to 2018, and consistent with the recently completed NZTA audit, at our final audit we will require a full reconciliation between the claims throughout the year and the GL.</p> <p><b>Management comment</b></p> <p><i>A project team has been established and improvements are being worked on in this area. "Snapshot" reports from the GL are being taken at the time of claiming to improve the reconciliation process. We have spoken to Ruapehu DC on the advice from the NZTA Audit team and will continue to use their assistance in improving our processes.</i></p>
<b>Information systems</b>		
<p>Increase the maturity of the information systems management framework and supporting processes by:</p> <ul style="list-style-type: none"> <li>Developing an information systems strategic plan.</li> <li>Developing an information security policy.</li> <li>Documenting user account management processes.</li> <li>Documenting user account security criteria and improve password strength.</li> <li>Reviewing vendor support accounts and ensure access is required</li> <li>Restricting access to the data room.</li> <li>Improving change management processes – perhaps through the use of SpiceWorks.</li> <li>Tracking and managing incidents – perhaps through the use of SpiceWorks.</li> <li>Periodically testing back-ups.</li> </ul>	2017/18	<ul style="list-style-type: none"> <li>It is expected an IS strategic plan will be completed and ready for review within the next two months.</li> <li>An IS Security Policy has not yet been started. IT staff need to complete the Information systems Strategic plan before they can begin work on this.</li> <li>User account management processes have been documented.</li> <li>Vendor support accounts have been reviewed and no issues found on review.</li> <li>SpiceWorks is now being used much more proactively to manage changes. Council are currently investigating what other software is available for this propose.</li> <li>SpiceWorks is now being utilised as an IT helpdesk and has been rolled out to staff.</li> </ul>

Recommendation	First raised	Status
<ul style="list-style-type: none"> <li>Updating the Disaster Recovery and IT Business Continuity Plans.</li> </ul>		<ul style="list-style-type: none"> <li>IT has a weekly set of health checks done on the servers. Part of this check-up is to randomly restore something from backup as a quality test on a backup set.</li> <li>Updating the Disaster Recovery and IT Business Continuity Plans will begin in conjunction with the strategic plan.</li> </ul> <p><b>Management comment</b></p> <p><i>Most of these items have been completed, staff are working on longer term items, and may not be completed by year end, however it is hoped that there is some traction on this.</i></p> <p><i>Before the IS strategy and DRP are completed, staff are looking at the region as a whole rather than just WDC which increases the timeline to complete.</i></p>
<b>Revaluation of the District Council group land and buildings</b>		
<p>All entities in the District Council group should revalue land and buildings to ensure that the treatment is consistent. The timing of the land and buildings valuations should be consistent.</p>	2017/18	<p>Council policy is to use the revaluation model and it is expected that the CCO's will use this same policy. Westroads do revalue assets however Destination Westland do not.</p> <p>The Chair of Westland Holdings Limited has written to the Chair of Destination Westland requiring that they use the same revaluation accounting methodology as Council.</p> <p>We will follow up on this as part of the final audit.</p> <p><b>Management comment</b></p> <p><i>Some improvement has been made to DWL changing methodology to revaluation accounting.</i></p> <p><i>DWL have confirmed that the airport assets are being independently revalued and impairment tested.</i></p> <p><i>The full asset check has been carried out by DWL management.</i></p>

Recommendation	First raised	Status
<b>Risk management</b>		
<ul style="list-style-type: none"> <li>• Ensure continual review and update of the risk register and implementation of any mitigating actions identified.</li> <li>• Ensure that the new risk management system, Quantate, is fully implemented to help better identify, evaluate, monitor and manage risk.</li> </ul>	2017/18	<p>The risk management software, Quantate, is now fully up to date and the structure in the system has been changed to reflect the current structure in council.</p> <p>The risk register itself is reviewed by the FAR Committee every quarter.</p> <p>Training is still needed for risk managers before they can manage the risks in their areas.</p> <p><b>Management comment</b> <i>Training still to progress.</i></p>
<b>Fixed asset capitalisation policy</b>		
Develop a formal asset capitalisation policy.	2017/18	<p>A policy has been adopted. This will be confirmed as part of the final audit by reviewing the Council's Statement of Accounting Policies within the financial statements.</p> <p><b>Management comment</b> <i>Noted.</i></p>
<b>Renewals under expenditure</b>		
Ensure that planned renewal expenditure is sufficient to avoid significant failure of assets in future years due to delayed maintenance not being carried out.	2017/18	<p>Renewals expenditure is an area of ongoing focus. There are several renewals projects that are being deferred until 2019/20. The continued deferral of projects will result in either further push-back or cancellation of future projects.</p> <p><b>Management comment</b> <i>Projects being deferred are typically non-critical replacement works or significant projects that necessitate significant lead in/preliminary planning that wasn't carried out at project creation stage. This will not result in cancellation of future projects but may lead to re-scoping of some parts.</i></p>

Recommendation	First raised	Status
<b>Fixed Asset Register (FAR) is in a manual excel spreadsheet</b>		
<p>As management are not going to migrate the FAR spreadsheet data in to the finance system (MagiQ), we recommend that staff regularly review the manual spreadsheet FAR to ensure changes to the spreadsheet such as asset additions and depreciation are being correctly calculated. It is also important that this spreadsheet is regularly reconciled with the general ledger within the Finance system.</p>	2016/17	<p>The FAR is still managed in a manual excel spreadsheet.</p> <p>We will review the excel spreadsheet at year end to ensure that the internal logic is accurate.</p> <p><b>Management comment</b></p> <p><i>FAR is reviewed regularly.</i></p>
<b>Legislative compliance</b>		
<p>Council develops and implements a sound legal compliance system for identifying and recording potential risks and assessing the likelihood of those risks across all activities of the organisation.</p> <p>Relying solely on the knowledge of staff exposes the organisation to risk, especially when staff change.</p>	2015/16	<p>No change from prior year. It is the responsibility of staff to ensure that they are complying with key legislation. The Council intends to use its new Electronic Document Management System (in development) to provide staff with notifications of when key legislative dates are coming up to ensure compliance.</p> <p><b>Management comment</b></p> <p><i>Staff consider compliance within all documents and processes.</i></p>
<b>Rates assessment and invoices</b>		
<p>Perform an annual review of the rates assessments and invoices to ensure that they are compliant with relevant legislation and include the correct ratepayer details.</p>	2014/15	<p>Our review of the 2018/19 rates assessment and invoices indicated that the rates assessment does not include the information on the factors used to calculate the amount of liability of a rating unit in respect of each targeted rate (such as capital value, fixed dollar charge, etc.).</p> <p>We will review the 2019/20 rates assessment and invoices at our final audit.</p> <p><b>Management comment</b></p> <p><i>This is an area staff are working on with the system provider, however this has proved challenging.</i></p>

Recommendation	First raised	Status
<b>Timely review of balance sheet reconciliations</b>		
Ensure that bank reconciliations are reviewed on a timely basis.	2017/18	<p>Bank and other balance sheet reconciliations are being performed by the Accountant and reviewed by the Finance Manager. However, the preparation and review is not being performed on a timely basis. This was improved towards the end of the year and management are taking steps to reduce the time delay.</p> <p><b>Management comment</b></p> <p><i>Staff vacancies meant this was difficult to administer at first, however this process has improved and with full staffing reconciliations are now being completed in a timely manner.</i></p>
<b>Legislative compliance - CCOs</b>		
The Council should work with its CCOs to ensure compliance with the significant legislative requirements.	2017/18	<p>The new board of Westland Holdings Limited have been proactive in ensuring that the CCO's have complied with legislation and have provided the draft SOI's within the legislative deadlines.</p> <p>We will follow up on other key legislative requirements as part of our final audit.</p> <p><b>Management comment</b></p> <p><i>Legislative deadlines have been met.</i></p>
<b>Beneficial</b>		
<b>Property, plant and equipment stocktake</b>		
Perform a physical stocktake to verify if assets included in the FAR still exist.	2016/17	<p>Management are yet to perform a physical stocktake. This is an ongoing process as part of valuation cycles.</p> <p><b>Management comment</b></p> <p><i>Further conversation with audit required on this matter to determine the level of "stocktaking" required.</i></p>
<b>Landfill provision</b>		
The Council should change its accounting policy of recognising landfill assets at	2017/18	The policy has been changed so that the landfill assets are not revalued. We will



Recommendation	First raised	Status
<p>revaluation to the cost method. Revaluing landfill assets creates a high level of accounting complexity that is not necessary.</p>		<p>follow up on this at year end to ensure that the revaluation reserve has been transferred to retained earnings and the Statement of Accounting Policies has been updated.</p> <p><b>Management comment</b></p> <p><i>The change to the accounting policy has been adopted by Council, to be updated in the statement of Accounting Policy by final audit.</i></p>

## Appendix 2: Disclosures

Area	Key messages
Our responsibilities in conducting the audit	<p>We carry 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. 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 systems of controls for detecting these matters.</p>
Auditor independence	<p>We are independent of the Westland District 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>To date, in addition to the audit we have carried out an engagement relating to the Debenture Trust Deed for 2018, which is compatible with those independence requirements. Also, the Office of the Auditor-General has performed an inquiry under S18 of the Public Audit Act on the Franz Josef stopbank procurement.</p> <p>Other than the audit and this engagement, we have no relationship with or interests in the Westland District Council or its subsidiaries.</p>
Fees	<p>The audit fee for the year is \$140,000, as detailed in our Audit Proposal Letter.</p> <p>To date, no other fees have been charged in this period.</p>
Other relationships	<p>To date, 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 Westland District Council or its subsidiaries that is significant to the audit.</p> <p>We are not aware of any situations to date where a staff member of Audit New Zealand has accepted a position of employment with the Westland District Council or its subsidiaries during or since the end of the financial year.</p>

## AUDIT NEW ZEALAND

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**FINANCE, AUDIT AND RISK COMMITTEE ROLLING WORK PLAN**

Item	July-19	Aug-19	Sept-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	April-20	May-20	June-20
<b>External Audit</b>	Interim Audit Management Report 2018/19 – review action to be taken by management		Note - Final Audit Annual Report 2018/19 begins  (Over month end)	Cont, Final Audit Annual Report 2018/19				Audit Management Report 2018/19			Interim Audit 2019/20 – to be confirmed  Update on Management actions on Audit NZ recommendations Audit management report 2018/19	
<b>Financial Reporting</b>	Note – no month end financial report.	Verbal update on year end		Quarterly Report to September 2019  Review Audited Annual Report 2018/19 – for recommendation of adoption to Council			Quarterly Report to December 2019			Quarterly Report to March 2020		
<b>Insurance</b>					Valuation Information  Renewal							
<b>Risk Management Framework</b>	Review Risk Register	Health & Safety Report		Review Risk Register	Health & Safety Report		Review Risk Register	Health & Safety Report		Review Risk Register	Health & Safety Report	
<b>Internal Control Framework</b>		Update – Fraud Control Progress			Update – Fraud Control Progress			Update – Fraud Control Progress			Update – Fraud Control Progress	