



A G E N D A

Finance, Audit and Risk Committee

**Council Chambers
36 Weld Street
Hokitika**

**Thursday 28 February 2019
commencing at 9.30 am**

Deputy Mayor L.J. Martin – Chairperson
His Worship the Mayor R.B. Smith
Deputy Mayor Cr H.M. Lash
Crs D.L. Carruthers, Gray Eatwell, J.A. Neale,
D.M.J. Havill ONZM, G.L. Olson, D.C. Routhan
Kw. Francois Tumahai, Te Rūnanga o Ngāti Waewae
Kw. Tim Rochford, Te Rūnanga o Makaawhio



FINANCE, AUDIT AND RISK COMMITTEE

AGENDA FOR A MEETING OF THE FINANCE, AUDIT AND RISK COMMITTEE, TO BE HELD IN THE COUNCIL CHAMBERS, 36 WELD STREET, HOKITIKA ON THURSDAY 28 FEBRUARY 2019 COMMENCING AT 9.30 AM

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 meet the current and future needs of communities for good-quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost-effective for households and businesses.

1. MEMBERS PRESENT, APOLOGIES AND INTEREST REGISTER:

1.1 Apologies & Leave of Absence

1.2 Interest Register

2. CONFIRMATION OF MINUTES:

- 2.1 Finance, Audit and Risk Committee Meeting– 24 January 2019** **Pages 5-9**

3. REPORTS FOR INFORMATION:

- 3.1 Financial Report – January 2019** **Pages 10-24**

- 3.2 Audit Management Report – Year Ended 30 June 2018** **Pages 25-75**

4. REPORTS FOR DECISION:

Nil.

5. ITEMS FOR DISCUSSION:

- 5.1 Finance, Audit and Risk Committee Rolling Workplan** **Page 76**

6. MATTERS TO BE CONSIDERED IN THE 'PUBLIC EXCLUDED SECTION'

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

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

- 6.1 Confidential Minutes – 24 January 2019**

- 6.2 Staff Conflict of Interest and Protected Disclosures Policy**

- 6.3 Health and Safety Initiatives**

- 6.4 Living Wage**

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:

Item No.	Minutes/ Report of	General subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Ground(s) under Section 48(1) for the passing of this resolution
6.1	Confidential Minutes – 24 January 2019	Confidential Minutes	Good reasons to withhold exist under Section 7	Section 48(1(a) & (d)
6.2	Staff Conflict of Interest and Protected Disclosures Policy	Confidential Report	Good reasons to withhold exist under Section 7	Section 48(1(a) & (d)
6.3	Health and Safety Initiatives	Confidential Report	Good reasons to withhold exist under Section 7	Section 48(1(a) & (d)
6.4	Living Wage	Confidential Report	Good reasons to withhold exist under Section 7	Section 48(1(a) & (d)



Finance, Audit and Risk Committee Minutes

MINUTES OF A MEETING OF THE FINANCE, AUDIT AND RISK COMMITTEE OF WESTLAND DISTRICT COUNCIL, HELD IN THE COUNCIL CHAMBERS, 36 WELD STREET, HOKITIKA ON THURSDAY 24 JANUARY 2019 COMMENCING AT 9.30 AM

1. MEMBERS PRESENT, APOLOGIES AND INTEREST REGISTER:

1.1 Members Present

Deputy Mayor Cr L.J. Martin (Chair)
His Worship the Mayor R.B. Smith
Deputy Mayor H.M. Lash
Crs D.L. Carruthers, D.M.J. Havill (ONZM), J.A. Neale, G.L Olson, D.C Routhan,
Cr Gray Eatwell
Kw. Francois Tumahai, Te Rūnanga o Ngāti Waewae

Apologies and Leave of Absence

Nil

Absent:

Kw. Tim Rochford, Te Rūnanga o Makaawhio

Staff in Attendance:

S.R. Bastion, Chief Executive; L.A. Crichton, Group Manager: Corporate Services;
D.M. Maitland, Executive Assistant.

1.2 Interest Register

The Chair circulated the Interest Register and two amendments were noted as follows:

- Deputy Mayor Martin – One District Plan Governance Group – Member

- Kw. Tumahai – One District Plan Governance Group and Regional PGF Advisory Group.

The Chief Executive introduced and welcomed new staff to the Westland District Council as follows:

- Te Aroha Cook, Regulatory Services Manager.
- Dominique Tharandt, Capital Projects Manager.

2. CONFIRMATION OF MINUTES:

2.1 Finance, Audit and Risk Committee Meeting – 13 December 2018

Moved Cr Neale, seconded Cr Havill and **Resolved** that the Minutes of the Finance, Audit and Risk Committee Meeting held on the 13 December 2018 be confirmed as a true and correct record of the meeting, subject to the following amendment:

Page 5 – Interest Register:

Deputy Mayor Martin

Director – Destination Westland – Maintenance Contracts with Council.

3. REPORTS FOR INFORMATION

3.1 Quarterly Performance Report to 31 December 2018

The Strategy and Communications Advisor, and the Finance Manager spoke to the Quarterly Performance Report.

- A) Cr Havill congratulated the staff on their performance with the reports to the Committee.
- B) West Coast Wilderness Trail.
There are two agreements that need to be managed separately by the Ministry of Business, Innovation and Employment. The CE advised that Council is now fully reimbursed for the West Coast Wilderness Trail.
- C) Use of Consultants.
There are always consultants' costs, as there are technical items within Council that are required.
- D) Footpath upgrade which is a rollover of \$1,000.
A meeting had been held with staff and local representatives of the Whataroa Community regarding footpaths and agreement had been reached on a programme of works. The Group Manager: District Assets to follow up and report back to Councillors.

- E) Waterfront Development
The Finance Manager to follow up with the details of the project. The CE advised there is still \$150,000 for beachfront development to ensure that the area is maintained correctly. The Finance Manager to report back on the 10 Year Plan which has more details and will send more information on what was removed and what was included in there. It was noted that the project that was removed was the playground.
- F) Non-Mandatory Information
The Group Manager: Corporate Services advised that there is information collected which is the non-mandatory information. The bi-annual phone survey will be a web-based survey run until the 20 February 2019. This information will lead into the long term plan and annual reports.
- G) Forecast Expenditure
The Finance Manager advised that the forecast for expenditure for capital is incorrect due to a misclassification change. Capital expenditure will drop down just below \$300,000.
- H) Future Freedom Camping
Council will need Central Government support to run the freedom camping. Various concepts had been discussed with staff and representatives who will be reporting back to Central Government. The CE had sought the opinion of Councillors regarding this item. Deputy Mayor Martin suggested as part of the CE's Report to seek direction from Council.
- I) TIF Funding applications were discussed, noting that the new rules means that successful applications come with two years of OPEX costs.
- J) Deputy Mayor Lash commented on the iSite with the very good statistics included in the report.

Moved Cr Olson, seconded Cr Eatwell and **Resolved** that the Quarterly Performance Report to 31 December 2018 be received.

4. REPORTS FOR DECISION:

Nil.

5. ITEMS FOR DISCUSSION

5.1 Finance, Audit and Risk Committee Rolling Workplan

The Group Manager: Corporate Services provided an update on the Committee Workplan, and the following items were noted:

- A) The Committee Workplan had been rolled forward by one month.
- B) The Staff Conflict of Interest and Protected Disclosures Policy had been approved by the Executive Team as part of the Council's Internal Control Framework, and it was noted that these two documents will be included in the Confidential Section of the 28 February 2019 Finance, Audit and Risk Committee Meeting for consideration and recommendation to Council.

Moved Cr Deputy Mayor Lash, seconded Kw. Tumahai and **Resolved** that the Finance Audit and Risk Committee Rolling Workplan be received.

6. MATTERS TO BE CONSIDERED IN THE 'PUBLIC EXCLUDED SECTION'

Moved Cr Olson, seconded Cr Neale and **Resolved** that the Finance, Audit and Risk Committee confirm that the public were excluded from the meeting in accordance with Section 48, Local Government Official Information and Meetings Act 1987 at 10.01 am

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

6.1 Confidential Minutes – 13 December 2018

6.2 Risk Register

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:

Item No.	Minutes/ Report of	General subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Ground(s) under Section 48(1) for the passing of this resolution
6.1	Confidential Minutes 13 December 2018	Confidential Minutes – Finance, Audit and Risk Committee	Good reasons to withhold exist under Section 7	Section 48(1(a) & (d)

6.2	Risk Register	Confidential Report – Risk Register	Good reasons to withhold exist under Section 7	Section 48(1)(a) & (d)
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This resolution is made in reliance on Section 48(1)(a) and (d) of the Local Government Official Information and Meetings Act 1987 and the particular interest or interests protected by Section 6 or 7 of that Act which would be prejudiced by the holding of the whole or relevant part of the proceedings of the meeting in public are as follows:

No.	Item	Section
6.1 & 6.2	Protect the privacy of natural persons, including that of deceased natural persons.	Section 7(2)(a)
	Enable any local authority holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations).	Section 7(2)(i)

Moved Cr Olson, seconded Cr Carruthers and **Resolved** that the business conducted in the “Public Excluded Section” be confirmed and accordingly the meeting went back to the open part of the meeting at 10.10 am.

MEETING CLOSED AT 10.11 AM

Confirmed by:

Deputy Mayor Latham Martin
Chair – Finance, Audit and Risk Committee

Date

Report



DATE: 28 February 2019
TO: Mayor and Councillors
FROM: Finance Manager

FINANCIAL PERFORMANCE: JANUARY 2019

1 SUMMARY

- 1.1 The purpose of this report is to provide an indication of Council's financial performance for seven months to 31 January 2019.
- 1.2 This issue arises from a requirement for sound financial governance and stewardship with regards to the financial performance and sustainability of a local authority.
- 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 Finance, Audit and Risk Committee receive the financial performance report to 31 January 2019, attached as **Appendix 1**.

2. BACKGROUND

- 2.1 Council receives monthly financial reporting so that it has current knowledge of its financial performance and position against targets and objectives adopted in the Long Term Plan 2018-28.

3 CURRENT SITUATION

- 3.1 Council now receives a monthly financial summary report in a consistent format.

3.2 The Financial Performance Report to 31 January 2019 is attached as **Appendix 1** and contains the following elements:

- 3.2.1 Segmental graphs for net cost of services, operating revenue and expenditure with the addition of the actual amounts.
- 3.2.2 Update on Rates Debtors.
- 3.2.3 Whole of Council Cost of Service Statement.
- 3.2.4 Variance analysis
- 3.2.5 Council approved unbudgeted expenditure
- 3.2.6 Debt report including budgeted debt, forecast debt and actual debt.
- 3.2.7 Capital Expenditure 2018-19
- 3.2.8 Carryover Schedule 2017-18
- 3.2.9 Balance Sheet

4 OPTIONS

4.1 Committee can decide to receive or not receive the report.

5 SIGNIFICANCE AND CONSULTATION

5.1 This report is for information only and, while feedback is invited from Council in order for staff to continuously improve the quality of information provided, no assessment of significance or consultation and no options analysis is required.

6 RECOMMENDATION

A) **THAT** the Finance, Audit and Risk Committee receive the Financial Performance Report to 31 January 2019.

Lavinia Hamilton
Finance Manager

Appendix 1: Financial Performance January 2019

Appendix 1



Financial Performance January 2019

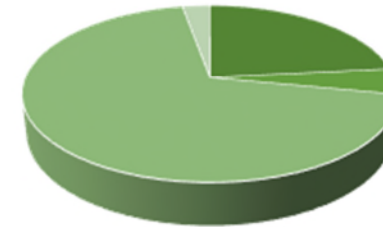
Graphs: Operating Revenue and Expenditure

**Operating revenue
Actual year to January**



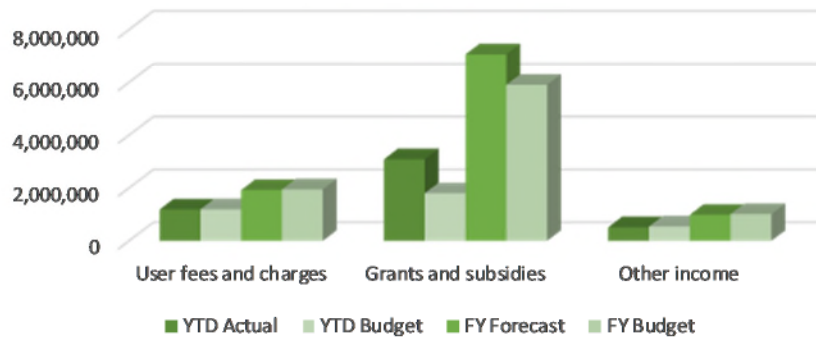
■ User fees and charges ■ Grants and subsidies ■ Other income

**Operating expenditure
Actual year to January**

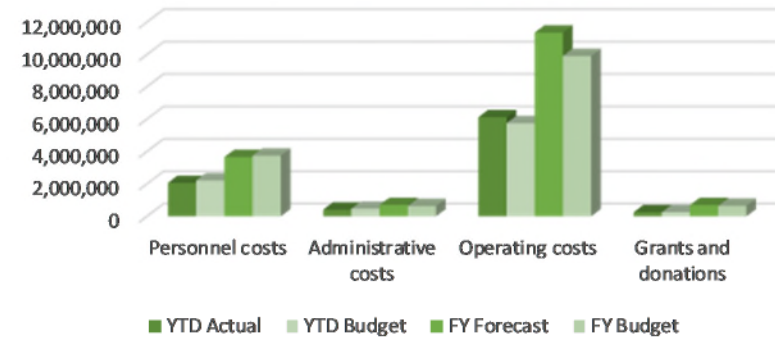


■ Personnel costs ■ Administrative costs ■ Operating costs ■ Grants and donations

Operating revenue



Operating expenditure



Column1	User fees & Charges	Grants & Subsidies	Other Income
Actual YTD	1,188,065	3,087,733	517,359
Budget YTD	1,191,299	1,798,803	540,811
Variance	(3,234)	1,288,930	(23,452)
FY Forecast	1,923,420	7,066,245	984,631
FY Budget	1,945,649	5,904,264	1,009,013

Column1	Personnel	Administration	Operating	Grants & donations
Actual YTD	2,067,695	419,731	6,120,649	251,816
Budget YTD	2,212,486	470,110	5,745,409	257,815
Variance	(144,790)	(50,378)	375,241	(5,999)
FY Forecast	3,665,033	703,939	11,355,507	700,246
FY Budget	3,749,231	638,465	9,921,209	656,620

Rates Debtors as at 31 January 2019

Rates Debtors at 31 December 2018		831,660
Rates instalment	3,579,976	
Less payments received	- 373,494	
Paid in advance change	- 640,610	
Previous years write off's	-	
Write off's	- 20,834	
Penalties	36,392	
Discounts	- 76	
Court costs awarded	-	
		2,581,355
Total Rates Debtors at 31 January 2019		3,413,015
Arrears included above at 31 January 2019	3,413,015	
Arrears at 31 January 2018	3,381,105	
Increase/(decrease) in arrears		31,911

Debt Management January 2019

FY Year	Jan-19	Jan-18	Dec-18
Pre 2015	108,199	162,621	108,199
2015-16	40,719	59,017	41,019
2016-17	53,353	162,882	55,348
2017-18	158,302	2,996,585	175,469
Current	3,052,442		451,626
Total	3,413,015	3,381,105	831,660

Cost of Service Statement

WESTLAND DISTRICT COUNCIL	Year to January			Full Year 2018-2019	
	Actual	Budget	Variance	FY Forecast	Budget
Operating revenue					
Rates (includes targeted rates and metered water)	11,049,126	10,993,330	55,797	15,706,106	15,706,106
User fees and charges	1,188,065	1,191,299	(3,234)	1,923,420	1,945,649
Grants and Subsidies	3,087,733	1,798,803	1,288,930	7,066,245	5,904,264
Other income	517,359	540,811	(23,452)	984,631	1,009,013
Overhead recoveries	3,858,020	4,185,736	(327,716)	6,847,832	7,175,548
Total revenue (A)	19,700,305	18,709,979	990,326	32,528,234	31,740,580
Operating expenditure					
Personnel costs	2,067,695	2,212,486	(144,790)	3,665,033	3,749,231
Administrative costs	419,731	470,110	(50,378)	703,939	638,465
Operating costs	6,120,649	5,745,409	375,241	11,355,507	9,921,209
Grants and donations	251,816	257,815	(5,999)	700,246	656,620
Overheads	3,851,753	4,152,680	(300,927)	6,817,207	7,118,134
Total operating expenditure (B)	12,711,644	12,838,498	(126,854)	23,241,932	22,083,659
Net operating cost of services - surplus/(deficit) (A - B)	6,988,661	5,871,481	1,117,180	9,286,302	9,656,921
Other expenditure					
Interest and finance costs	390,635	441,391	(50,756)	705,914	756,670
Depreciation	3,604,038	3,458,475	145,563	6,155,110	5,928,815
(Gain)Loss on swaps	124,257	114,201	10,056	205,829	195,773
(Gain)Loss on disposals	-	-	-	-	-
Total other expenditure (C)	4,118,930	4,014,067	104,863	7,066,853	6,881,258
Total expenditure (D = B + C)	16,830,574	16,852,566	(21,992)	30,308,785	28,964,917
Net cost of services - surplus/(deficit) (A - D)	2,869,731	1,857,413	1,012,317	2,219,449	2,775,663

Variance Analysis

Variance Analysis

Operating Revenue	
Rates revenue	This is due to a misallocation of written off penalties therefore overstating the rates penalties. Water rates are above budget, this variance is expected to increase over summer.
User fees and charges	Overall this is on budget, however Building inspection fees (-\$19k) and Animal registration fees (-\$25k) are below budget while Plant hire (\$18k) and I site stock transfers (\$26k) are above budget. Based on the previous year, building inspections are expected to increase towards the end of the year. Animal registration charges are also expected to make budget now that staff are in-house.
Grants and Subsidies	\$946k MBIE grant was budgeted in the previous financial year while the \$546k responsible camping grant was unbudgeted but will be offset by operational and capital expenditure.
Other Income	Interest Revenue is below budget (\$9K), this is due to having less cash than budgeted, this has been driven by unbudgeted expenditure and expenditure on approved but pending grants.
Operating Expenditure	
Personnel costs	Unfilled vacancies lowered expected personnel costs, offset by increased expenditure on recruitment, contractors and consultants cost. A number of positions have recently been filled which should see the variance gap close.
Administrative costs	Increased internet use and a drive to lower photocopying and printing costs has reduced printing costs by \$4.7k, postage by \$6k and photocopying by \$17k. Computer operating costs are below budget by \$26k due to budget phasing and are expected to increase to budget in the coming months.
Operating costs	Transport costs are over budget by \$315.5k while the NZTA claim is under budget by \$178k. Structure maintenance, routine drainage and environmental maintenance are over budget by \$344k and are forecast to be above budget. Stormwater costs are up by \$18K due to the storm event in November.
Grants and Donations	\$6k difference due to timing of payments as conveniences grants are uplifted on request.
Other Expenditure	
Depreciation	Depreciation is above budget. Budgeted depreciation was lowered after discussion by Audit NZ through the LTP process, this has proved incorrect. Depreciation is forecasted to be above budget at the end of the financial year.
(Gain)/Loss on Swaps	Swap values are based on market factors and are difficult to predict. Any gain or loss on swaps would not materialise unless swaps were cashed in before maturity.

Unbudgeted Expenditure

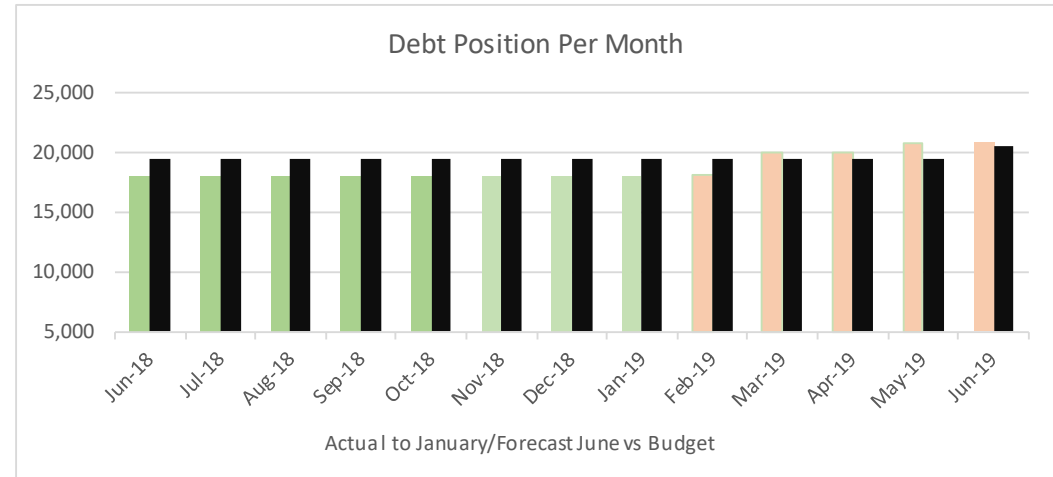
2018-2019

Dated Approved	Description	Amount Approved \$	Amount Spent \$	Status
Aug-18	Purchase of Land for Wastewater treatment plant	285,000	285,000	Purchase completed
Aug-18	Funding of War memorial in France	1,300	1,300	\$100 per soldier
Aug-18	Policy on Mining Conservation Land	20,000		
	IBIS Financial Reporting Software	50,000	34,360	IBIS Implementation in progress, there will be payments coming through the implementation period.
	Employment of Mayor's PA	21,120	18,546	Started Employment 10th September. Budget for 20 hours a week has been increased to 40 hours, forecast for the year is expected be 39.3k.
	Hokitika Tourist Amenities Block (TIFF)	58,750		Amount approved is Council's contribution. Amount Spent includes TIFF funded expenditure.
	Kumara Visitor Experience (TIFF)	61,350		Amount approved is Council's contribution. Amount Spent includes TIFF funded expenditure.
	Haast Toilets (TIFF)	222,880	382,875	Amount approved is Council's contribution. Amount Spent includes TIFF funded expenditure.
	Whataroa Toilets (TIFF)	100,250		Amount approved is Council's contribution. Amount Spent includes TIFF funded expenditure.
	Ross Toilets (TIFF)	106,750		Amount approved is Council's contribution. Amount Spent includes TIFF funded expenditure.
	ELMO - HR Software	31,018	31,018	50/50 Split with WCRC
	Health & Safety Contractor	63,340	24,292	Total is Council's contribution only
Total		1,021,758	777,391	

January Debt Position

Forecast Debt Position per Long Term Plan for the 2018-19 Financial Year

Forecast as at	Jul-18	Jan-19
Opening Balance	18,018	18,018
Loan funded capex forecast	3,998	4,551
Forecast repayments 2018-19	(1,571)	(1,813)
Forecast balance June 2019	20,446	20,756



	Debt Position per month												
	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19
Budget	19,402	19,402	19,402	19,402	19,402	19,402	19,402	19,402	19,402	19,402	19,402	19,402	20,446
Forecast at 1 July 2018	18,018	18,018	18,018	18,018	18,018	18,018	19,401	19,401	19,401	19,401	19,401	19,401	20,446
Actual + Forecast	18,018	18,018	18,018	18,018	18,018	18,018	18,018	18,018	18,018	19,958	19,958	20,749	20,756
Waste Management loan	2,207	2,207	2,207	2,207	2,207	2,207	2,207	2,207	2,207	2,307	2,307	2,307	2,172
Water Supply loan	2,178	2,178	2,178	2,178	2,178	2,178	2,178	2,178	2,178	2,947	2,947	2,704	3,116
Wastewater loan	1,485	1,485	1,485	1,485	1,485	1,485	1,485	1,485	1,485	1,785	1,785	2,475	2,679
Structured Infrastructure loan for Council assets	7,845	7,845	7,845	7,845	7,845	7,845	7,845	7,845	7,845	7,845	7,845	7,845	7,845
Stormwater loan	702	702	702	702	702	702	702	702	702	1,102	1,102	1,102	1,465
Transportation	685	685	685	685	685	685	685	685	685	685	685	685	658
Vehicle loan	44	44	44	44	44	44	44	44	44	44	44	44	34
Cass Square	109	109	109	109	109	109	109	109	109	109	109	109	123
Conveniences	165	165	165	165	165	165	165	165	165	446	446	446	659
Other	60	60	60	60	60	60	60	60	60	150	150	493	486
Hokitika Water supply upgrade	2,538	2,538	2,538	2,538	2,538	2,538	2,538	2,538	2,538	2,538	2,538	2,538	1,519

Capital Projects

Capital Projects 2018-19

31/01/2019

Project / Activity	YTD Exp	2018-19 Budget	Forecast	Budget Track	Progress / Track	Progress Comments
LEADERSHIP						
Information Management - DMS	15,225	50,000	50,000			This is a project that spans 2 years, therefore will not be expected to be completed by the end of this financial year. Planning is taking place therefore costs will not materialise till later in the year.
IT Equipment renewals - Annual Network	4,586	32,000	27,000			This should be below budget due to the new servers however there is still some work to be done between the floors
IT Equipment renewals - Upgrades to workstations	8,647	12,000	15,000			Increased the forecast but reduced the network budget correspondingly
IT Equipment renewals - Webcam replacement		2,500	2,500			Quote received, evaluating options, will be purchased before EOY
IT Equipment renewals - Disaster recovery servers		40,000	40,000			Delayed this year, due to obtaining suitable offsite location
Council HQ - Refurbishment		100,000	100,000			
IT Equipment renewals - Civil Defence Laptop		5,000	5,000			
Civil Defence - Civil defence Kits	5,663	4,800	5,663			
IT Equipment renewals - Councillors Tablets	1,618		1,618			
	35,738	246,300	245,163			
LIBRARY						
Library - Electrical upgrade	24,535	29,300	29,300			Almost complete. Charging cabinet & smaller IT purchases outstanding.
Library - Audio/Visual Resource	998	4,324	4,324			
Library - Books	19,456	45,403	45,403			
Library - Large Print Books	3,062	6,486	6,486			
	48,051	85,513	85,513			
WATER SUPPLY						
Kumara - Mains upgrade programme		15,000	15,000			
Kumara - Treatment Components upgrade programme		2,778	2,778			
Kumara - Disinfection upgrades programme		2,222	2,222			
Kumara - Telemetry		3,333	3,333			
Arahura - Treatment Components upgrade programme		2,778	2,778			
Arahura - Disinfection upgrades programme		2,222	2,222			
Arahura - Telemetry		3,333	3,333			
Arahura - Water treatment plant		365,000	365,000			Investigation work being finalised, design process underway
Hokitika - Mains upgrade programme		300,000	300,000			Currently being scoped
Hokitika - Pumps Upgrade Brickfield		25,000	25,000			Pumps are on order
Hokitika - Water meter replacements		90,000	90,000			Contractor has scoped work, waiting on report expected January
Hokitika - Generator	41,203	45,000	45,000			On Order
Hokitika - Treatment Components upgrade programme		2,778	2,778			
Hokitika - Disinfection upgrades programme		2,222	2,222			
Hokitika - Telemetry		3,333	3,333			
Ross - Mains upgrade programme		120,000	120,000			Forecast works are expected in the last quarter
Ross - Building Repairs and Stabilisation		15,000	15,000			Work has been scoped and contract has been issued
Ross - Water Source		20,000	20,000			Underway
Ross - Treatment Components upgrade programme		2,778	2,778			
Ross - Disinfection upgrades programme		2,222	2,222			
Ross - Telemetry	380	3,333	3,333			
Hari Hari - Mains upgrade programme		15,000	15,000			Currently being investigated, project due to start in February 2019
Hari Hari - Treatment Components upgrade programme		2,778	2,778			
Hari Hari - Disinfection upgrades programme		2,222	2,222			
Hari Hari - Telemetry		3,333	3,333			
Whataroa - Treatment Components upgrade programme		2,778	2,778			
Whataroa - Disinfection upgrades programme		2,222	2,222			
Whataroa - Telemetry	3,623	3,333	3,623			
Franz Josef - Mains upgrade programme		90,000	90,000			Consultant has been engaged do the preliminary work
Franz Josef - Raw Water Source	41,857	220,000	220,000			Work nearly complete waiting on invoicing from contractor
Franz Josef - Blower Electrics & SCADA	39,016	32,000	39,016			Complete
Franz Josef - Treatment Components upgrade programme	22,027	2,778	22,027			
Franz Josef - Disinfection upgrades programme		2,222	2,222			
Franz Josef - Telemetry	380	3,333	3,333			
Fox Glacier - Plant upgrade		400,000	400,000			Currently Investigated
Fox Glacier - Mains upgrade programme		80,000	80,000			Currently Investigated
Fox Glacier - Treatment Components upgrade programme		2,778	2,778			
Fox Glacier - Disinfection upgrades programme		2,222	2,222			
Fox Glacier - Telemetry		3,333	3,333			
Haast - Treatment Components upgrade programme		2,778	2,778			
Haast - Disinfection upgrades programme		2,222	2,222			
Haast - Telemetry	380	3,333	3,333			
	148,866	1,907,000	1,933,554			
WASTEWATER						
Hokitika - WWTP upgrade		275,000	275,000			Plant on order, design being finalised
Hokitika - Mains upgrade programme		60,000	60,000			Work in progress
Hokitika - Pump upgrade		20,000	20,000			
Hokitika - Pump upgrade (Kaniere)		130,000	130,000			
Hokitika - Kaniere Road catchment		50,000	50,000			
Hokitika - WW Network Growth		2,500	2,500			
Franz Josef - WWTP upgrade	450,224	2,250,000	2,250,000			Contract has been let, construction ready to start, costs YTD include land purchase
Franz Josef - WW Network Growth		2,500	2,500			
Fox Glacier - Mains upgrade programme		32,000	32,000			Network investigation underway
Fox Glacier - WWTP upgrade		100,000	100,000			Aerators and intakes on order
Fox Glacier - WW Network Growth		2,500	2,500			
Haast - WW Network Growth		2,500	2,500			
	450,224	2,927,000	2,927,000			

STORMWATER						
Hokitika - Mobile generator	23,810	30,000	30,000			Complete
Hokitika - Mains upgrade programme	39,153	25,000	35,000			
Hokitika - Pump upgrade (Tancred)		200,000	200,000			Consultant working on final design
Hokitika - Pump upgrade (Sewell)		100,000	100,000			Pump arrived awaiting installation
Hokitika - Pump upgrade (Rolleston)		20,000	20,000			on order
Hokitika - Pump upgrade (Hoffman)		50,000	50,000			on order
Hokitika - Extension Weld St		130,000	130,000			Consultant scoping project, cctv undertaken to finalise design
Hokitika - Realignment Beach St		20,000	20,000			waiting on construction works
Hokitika - Extension Jollie St	12,713	240,000	240,000			Consultant scoping project, cctv undertaken to finalise design
Hokitika - Mains upgrade new developments		10,000	10,000			
	75,676	825,000	835,000			

SWIMMING POOLS						
Swimming Pool Ross - EQ strengthening		10,000	10,000			
Hokitika Swimming Pool ventilation System	20,000		20,000			Project moved forward from year 2 of the LTP
	20,000	10,000	10,000			

COMMUNITY SERVICES DEVELOPMENT						
Footpath upgrades - Kokatahi		27,000	27,000			
Footpath upgrades - Kumara	22,000	10,000	22,000			
Footpath upgrades - Fox Glacier		3,000	3,000			
Footpath upgrades - Kaniere		1,000	1,000			
Footpath upgrades - Ross		3,000	3,000			
Footpath upgrades - Franz Josef		20,000	20,000			
Footpath upgrades - Whataroa		1,000	1,000			
Footpath upgrades - Hari Hari		1,500	1,500			
Footpath upgrades - Haast		1,500	1,500			
	22,000	68,000	80,000			

RESPONSIBLE CAMPING						
Toilets, Motor Vehicles, Refuse & Recycling Bins and Signage	177,177	-	566,000			Installation well underway, three sights operational. Expenditure to be fully subsidised by MBIE
	177,177	0	566,000			

NEW TOILET & ASSOCIATED FACILITIES						
Franz Josef Toilets	55,173		55,173			Finished
Whataroa Toilets	2,092		100,250			Currently being Designed
Ross Toilets	2,092		106,750			Currently being Designed
Kumara Visitor Experience	2,092		61,350			Currently being Designed
Okarito Toilets	9,893		9,893			Finished
Fox Toilets	3,319		3,319			Finished
	74,661	0	336,735			

ANIMAL CONTROL						
Motor vehicles	29,127		29,127			
	29,127	0	29,127			

ELDERLY HOUSING						
Elderly Housing - Glazing and insulation	-	20,000	20,000			Project rescheduled for the next financial year
	0	20,000	20,000			

WCWT						
West Coast Wilderness Trail - Enhancement	146,425	70,000	146,425			
	146,425	70,000	146,425			

SOLID WASTE						
Haast - Preparation for new cell		10,000	10,000			
Butlers - Site Shed	14,438	15,000	15,000			
	14,438	25,000	25,000			

LAND & BUILDINGS						
Buildings - Greypower windows		8,000	8,000			
Carnegie Building Upgrade	29,334		29,334			
	29,334	8,000	8,000			

ISITE & MUSEUM						
Museum - Photobooth		2,400	2,400			
i-Site - Booking Computers		7,500	7,500			
i-Site - Interactive mapping		11,780	11,780			
i-Site - Self service computers		4,900	4,900			
i-Site - Website development		10,000	10,000			
i-Site - Replacements of equipment		3,000	3,000			
	0	39,580	39,580			

PARKS & RESERVES						
Reserves - Waterfront development	10,410	50,000	50,000			
Reserves - Cass Square - Demolish Grandstand		15,000	15,000			
Reserves - Cass Square - Building improvements Pavilion		20,000	20,000			
Reserves - Cass Square - Rubber matting		20,000	20,000			
Reserves - Haast		10,000	10,000			
	10,410	115,000	115,000			

TRANSPORTATION						
Unsealed Road Metalling (3030)	211,494	286,500	286,500			
Sealed Road Resurfacing (3031)		850,000	850,000			
Maintenance - Drainage Renewals (3032)	5,370	159,000	159,000			
Structures Component Replace (3033)	86,853	212,500	212,500			
Traffic Services Renewals (3034)	43,160	127,500	127,500			
Sealed Road Pavement Rehabilitation	55,822	80,000	80,000			
Sealed Road Resurfacing (3070)		159,000	159,000			
Maintenance - Drainage Renewals		27,000	27,000			
Structures Component Replace (3072)	62	53,000	53,000			
Traffic services renewals	7,252	11,000	11,000			
Sealed Road Pavement Rehabilitation		150,000	150,000			
Low Cost Low Risk - Local	14,625	545,000	545,000			
Low Cost Low Risk - SPR		35,000	35,000			
	424,636	2,695,500	2,695,500			

Total	1,794,817	9,041,893	10,097,597			
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Carryover Schedule to 2018-19

Carryover Schedule to 2018-19

Activity	Detail	Funded by	Requested Amount \$	Actual \$	Forecast \$	Balance \$	Notes
Township Development	Upgrade footpaths and driveways over next three years	Depreciation	5,000	5,000	5,000		Repairs and maintenance footpaths, Kumara. Planned early 2019
Township Development	Repairs and Maintenance to Hokitika Statues	Depreciation	5,000	0	5,000		Statue upgrades of lighting etc. commenced -Budget required for this. 2018 - 19.
Water Supply	Kumara - Water treatment plant - seismic valves	Depreciation	30,000	0	30,000		Ordered & to be installed this year - Dec 2018
Water Supply	Whataroa - Water treatment plant	Depreciation	153,008	253,101	315,000		Now under construction - was delayed. Expected operational Nov 2018
Water Supply	Whataroa - Seismic valves	Depreciation	20,000		20,000		To be included / installed early 2019
Wastewater	Hokitika - Mains upgrade	Depreciation	126,856	50,656	126,856		One project completed (Z-line)- others underway - completions march 2019.
Wastewater	Haast - Mains upgrade	Depreciation	20,000	0	20,000		General works programmed in next 8 months.
Wastewater	Haast - De-sludge oxidation ponds	Depreciation	150,000	0	150,000		Planned for March / April 2019
Township Development	New footpaths - Franz	Depreciation	25,000	0	25,000		Cron Street - planned 2019
Township Development	Footpath upgrades - Hokitika	Depreciation	27,000	37,758	37,758		Resealing footpaths and driveways Hoffman Street, Hokitika. Late 2018
Township Development	Footpath upgrades - Kumara	Depreciation	5,000	5,000	5,000		Repairs and maintenance footpaths, Kumara. Planned early 2019
Township Development	Footpath upgrades - Franz	Depreciation	15,000	0	15,000		Business area development, Cron Street upgrade. DOC/Ngai Tahu. April 2019
Parks & Reserves	Reserves - Cass Square - Repairs to Statues	Depreciation	5,000	0	5,000		Lighting & upgrades of Cass Squ. statues & bases. - mid-2019
IT Equipment Renewals	IT Equipment Renewals	Depreciation	86,848	86,848	86,848	0	
Water Supply	Hokitika - Mains Upgrades	Depreciation	81,507	17,867	81,507		general works being completed
Water Supply	Ross - Water Treatment Plant - Seismic Valves	Depreciation	30,000	0	30,000		On order
Water Supply	Whataroa - Pump Upgrades	Depreciation	35,000	0	35,000		planned with Plant upgrade
Water Supply	Fox Glacier - Seismic Valves	Depreciation	30,000	2,934	30,000		to be undertaken with prior upgrade works
Cemeteries	Cemetery - Hokitika Upgrade & Expansion	Depreciation	10,000	0	10,000		Forward works planned.

Township Development	Township Maintenance - Kumara Rubbish Bins	Depreciation	3,000	0	3,000	on-going upgrades
Township Development	Township Maintenance - Hokitika Rubbish Bins	Depreciation	7,000	0	7,000	on-going upgrades
Township Development	Township Maintenance - Fox Rubbish Bins	Depreciation	3,000	0	3,000	on-going upgrades
Township Development	Township Maintenance - Haast Rubbish Bins	Depreciation	2,000	0	2,000	on-going upgrades
Reserves	Reserves - Cass Square - Repairs To Statues	Depreciation	5,000	0	5,000	See previous notes. - works planned.
Reserves	Reserves - Lazar Park Upgrade	Depreciation	45,000	0	45,000	Funds needs retaining for community project
Township Development	Footpath Upgrades	Depreciation	45,000	0	45,000	Works now scoped - ready to proceed.
Buildings	Council HQ Refurbishment	Loan Funding	104,767	68,665	104,767	Works underway need to retain funds.
Township Development	Bruce Bay Toilets	Loan Funding	23,024	0	23,024	
Township Development	Haast Township- New Toilet Facilities, Dump Station, Shelter, Bus Depot & Carpark	Loan Funding	262,880	382,875	382,875	Planning underway - programmed to start in Dec 2018.
Township Development	Sunset Point - New Toilets, Shelter & Carparks	Loan Funding	500,000	0	500,000	Works now progressing - design being finalised.
Solid Waste	Franz Josef Landfill	Loan Funding	25,000	0	25,000	Expected to occur in March 2019
Solid Waste	Intermediate Capping for Butlers	Loan Funding	50,000	0	50,000	About to be undertaken - October 2018.
Solid Waste	Landfill- Haast - Digout new Cell	Loan Funding	3,740	0	3,740	About to be undertaken - November 2018.
Solid Waste	Haast intermediate cap current cell	Loan Funding	10,000	0	10,000	Development scoping underway with new team / Mgr.
Water Supply	Kumara - Water treatment plant	Loan Funding	346,004	297,925	346,004	Now underway.
Wastewater	Franz Josef - New WWTP	Loan Funding	60,836	60,836	60,836	Project in tendering / design process
Transportation	Hokitika Gorge & Whitcombe Valley Road - Upgrade Of Existing Toilet Facilities, Carparks, Road Widening, Seal & Extension.	Loan Funding	68,056	855,636	855,636	Work now nearing completion - weather dependent
Water Supply	Hokitika - River Water Intake Upgrade	Loan Funding	25,322	235,314	235,314	Final works completed - Invoices & close off being processed.
Water Supply	Fox Glacier - Water Treatment Plant Upgrade	Loan Funding	50,000		50,000	Planned for new year
Wastewater	Hokitika - WWTP Upgrade	Loan Funding	298,333	16,928	298,333	Items on order - works underway
Wastewater	Fox Glacier - WWTP upgrade	Loan Funding	100,000	7,487	100,000	Items again on order - need to retain funds
Township Development	Franz Josef Urban Revitalisation Plan	Reserves	100,000	0	100,000	Awaiting further study / work with community, regional council and central government on a "master plan" for the

township before this streetscape / revitalisation work takes place.

Reserves	Reserves - Marks Road Reserve	Reserves	10,000	0	10,000	Works planned in this financial year. Prior to June 2019
Reserves	Reserves - Hokitika Waterfront Development	Recreation Contributions	72,045	10,410	72,045	Works planned in this financial year. Prior to June 2019
Reserves	Reserves - Hokitika Heritage Trail signs	Reserves	3,500	0	3,500	Works planned in this financial year. Prior to June 2019
Total			3,083,725	2,395,240	4,374,042	
	Total Depreciation Funded Carryovers		970,219			
	Total Loan Funded Carry Overs		1,927,961			
	Total Reserve Funded Carryovers		185,545			
			3,083,725	2,395,240		

Statement of Financial Position at 31 January

Balance Sheet as at 31 January 2019	Actual Jan-19 \$'000	Council Budget as at 30th June 2019 \$'000	Actual as at 30th June 2018 \$'000
Assets			
Current assets			
Cash and cash equivalents	3,163	5,570	2,021
Debtors and other receivables	5,672	2,354	5,277
Other financial assets	27	0	310
Inventory	0	0	0
Work in progress	0	0	0
<i>Total current assets</i>	8,862	7,923	7,609
Non-current assets			
Property, plant and equipment	428,042	459,716	429,889
Intangible assets	62	81	143
Derivative financial instruments	0	0	5
Council Controlled Organisations	8,695	8,695	8,695
Other Financial Assets	627	401	302
Investment property	0	0	0
Term inventory	0	0	0
Assets under construction	5,155	0	2,698
<i>Total non-current assets</i>	442,581	468,893	441,732
Total assets	451,442	476,816	449,340
Liabilities			
Current liabilities			
Creditors and other payables	1,611	2,087	2,604
Derivative financial instruments	0	0	1
Borrowings	0	1,701	3,000
Employee entitlements	177	182	358
Provisions	0	0	0
Tax payable	3	3	3
Other current liabilities	670	377	461
<i>Total current liabilities</i>	2,461	4,351	6,428
Non-current liabilities			
Derivative financial instruments	666	500	545
Borrowings	18,018	18,745	15,018
Employee entitlements	35	20	35
Provisions	2,179	2,089	2,179
Deferred Tax	96	28	32
<i>Total non-current liabilities</i>	20,994	21,382	17,810
Total liabilities	23,455	25,733	24,238
Net assets	427,987	451,084	425,104
Equity			
Retained earnings	149,811	151,581	148,031
Restricted reserves	8,725	7,347	7,622
Revaluation reserves	269,387	292,091	269,387
Other comprehensive revenue and expense reserve	64	64	64
Net assets	427,987	451,084	425,104

Report

DATE: 28 February 2019

TO: Finance, Audit and Risk Committee

FROM: Group Manager: Corporate Services

AUDIT MANAGEMENT REPORT YEAR ENDED 30 JUNE 2018

1 SUMMARY

- 1.1 The purpose of this report is to present the Audit Management Report (attached as **Appendix 1**) for the year ended 30 June 2018.
- 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 Audit Management Report for the year ending 30 June 2018 and approves it for public release.

2 BACKGROUND

- 2.1 Audit Management Reports are provided annually to Council and provide commentary and recommendations on observations made by the audit team during the Annual Report audit process.
- 2.2 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 There was a new audit director responsible for the Annual Report 2018 audit, which caused some major difficulties for Council.
 - 3.1.1 Interpretation differences between this audit and previous audits.
 - 3.1.2 The need to fully understand our accounting and reporting.
- 3.2 There were other issues which caused difficulties for Council and delayed the Audit sign-off and ultimately Council adoption.
 - 3.2.1 The OAG investigation into the Franz Josef stopbank process.
 - 3.2.2 The complaint to the OAG regarding Director Appointments.
 - 3.2.3 A delay in sign-off of Destination Westland and then ultimately Westland Holdings Limited.
 - 3.2.4 A rating resolution error where the non-statutory individual rates were stated incorrectly in the resolution, however it must be noted that the overall rates and overall individual rate types were stated correctly.
- 3.3 Audit have also stated in the Audit Management Report that they also performed a more detailed audit due to the above complaints and Council being under scrutiny. Audit NZ had not made staff aware of this before the audit. This caused a great deal of extra pressure for the Finance team especially after the protracted and difficult Long Term Plan Audit.
- 3.4 The Audit was particularly difficult for the Finance team, were there was a key accountant vacancy, and also the vacancy for the Strategy and Communications Advisor. Late receipt of information around fair value assessments put further strain on Finance and did not allow for a detailed review of the accounts or document before it was handed over to Audit.
- 3.5 Council staff felt that the whole audit process was poor and lacked direction. There were continual repetitive questions and requests for the same information. A complaint was laid at the time with Audit NZ.
- 3.6 There was also a case of mislaid important relevant information around the WHL Director Appointments which had an initial bearing on the draft Audit Management report, but were removed once Council proved the information had been provided, there were also some minor issues which have altogether resulted in very strained relationships and lack of trust in Audit NZ. Council would like to acknowledge the assistance of the Audit Supervisor.
- 3.7 Audit Management Report for 30 June 2018 notes the vacancies of key staff in Council, and also acknowledged that the process was difficult for staff.

- 3.8 There are no items described as 'Urgent' in the report. There are 11 items that have been described as necessary, and 1 item described as beneficial. Council has cleared or is already addressing 6 of the recommendations from this and previous audits.
- 3.9 The report also reflects on the quality and completeness of Council's statements of service performance. The financial year ended 30 June 2018 is the third year of reporting against the performance measures contained in the Long Term Plan 2015-25, which include the mandatory measures introduced by the Department of Internal Affairs.
- 3.10 There are still challenges in gathering this data using the limited reporting system, and there is still some improvement required and some specific actions are noted.

4 OPTIONS (WITH ANALYSIS)

- 4.1 The Committee can decide to receive or not receive the report. Should the Committee decide not to release the report to the community it would sacrifice the opportunity to provide a useful and objective perspective on how Council is discharging its obligations of financial stewardship and control over service delivery.

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 Audit Management Report for the year ended 30 June 2018.
- B) **THAT** the Committee approves the public release of the Audit Management Report for the year ended 30 June 2018.

Lesley Crichton
Group Manager: Corporate Services

Appendix 1: Audit Management Report 30 June 2018

Report to the Council on the audit of

Westland District Council

For the year ended 30 June 2018

Key messages

We have completed the audit for the year ended 30 June 2018. This report sets out our findings from the audit and draws attention to areas where the Westland District Council (the Council) is doing well and where we have made recommendations for improvement.

Audit opinion

We issued an unmodified audit opinion on 22 November 2018.

Matters identified during the audit

Completion of the audit after the statutory deadline

The annual reporting process, including the audit, was completed on 22 November 2018. Unfortunately, this was after the statutory deadline of 31 October 2018. There were multiple reasons for this including:

- The subsidiary audits had not been completed due to issues identified.
- Land and building valuation, auditing the associated corrections to disposals and found assets, and considering rating non-compliance issues requiring extra time.
- A prior period error for the landfill provision being identified late in the audit process. The accounting for the landfill in 2017 was incorrect which had not been detected by the Council or us, and took considerable time to work through.
- Considering and resolving the impact of the OAG inquiry on the opinion – ultimately this did not negatively impact the audit opinion.

We also decided to lower our materiality threshold given the external scrutiny the Council is under, which meant we did more audit work than in previous years.

We acknowledge that 2018 was a particularly difficult year for the Council with the CD/LTP process being completed, complex issues being identified and worked on by management from processing the valuation, and staffing changes and vacancies across the organisation. These factors impacted the annual audit and the recommendations made in this report need to be considered in this context.

In many cases the issues identified were legacy issues, resulting from poor historic underlying information and/or incorrect accounting and auditing judgements made in earlier years. However, some were current year matters, such as rates setting, where internal practices at the time were insufficient to identify that the Council's rate setting and collection was non-compliant.

Given all of this, the Council's prepared information within the timeframes proposed which was a significant achievement, but improvements to the quality and accuracy of the information presented are required. A list of the significant changes made as a result of our involvement is included in Appendix 3.

Overall the Council is committed to improving its processes and controls, and improving assets information, and has made progress in this, but there is some way to go in this respect and we have raised a number of recommendations for the Council to consider.

Property plant and equipment

The Council's land and buildings were revalued as at 30 June 2018 by Preston Rowe Paterson. The assets were valued using market-based evidence, except for specialised buildings which were valued using depreciated replacement cost. We are satisfied that the valuation materially complies with PBE IPSAS 17. However, during our review we noted that:

- Not all assets within the land and buildings classes have been revalued as required by PBE IPSAS 17.

As part of the valuation exercise management found:

- Over \$1 million of duplicate assets which have been taken out of the Council's fixed asset register (FAR).
- Over \$540,000 of assets were disposed of as management determined that they did not exist or were not owned by the Council.

Accounting for these items was challenging, but they were ultimately appropriately reflected in the financial statements.

Infrastructure assets are also revalued periodically. An assessment of those assets determined that there was no material difference between the carrying value and a current revalued amount, and a valuation was not required in 2018. However, it is probable that the assets will have moved materially by 30 June 2019 and a valuation will be required.

Rates

The Council's rates assessment and collection for the 2017/18 period did not comply with the Local Government (Rating) Act 2002. Nearly every rate charged to ratepayers was different to the rates the dollar or the amount per rating unit included in the rates resolution. As a consequence, the Council collected more from ratepayers by a net \$140,000 (GST excluded) compared to the "per unit rates" in the resolution. This comprised rates over-collected by \$234,000 (mainly water rates) and rates under-collected by \$94,000.

Simpson Grierson provided legal advice on the matter. This included a "do nothing" option that the Council opted to take. The Council appropriately disclosed the non-compliance in the Annual Report and Summary Annual Report.

Landfill aftercare provision

A \$790,000 prior period error was identified in relation to the landfill aftercare provision due to:

- an error in the discount rate used to calculate the provision; and
- incorrect accounting treatment of the increased Butlers landfill provision.

Any movement in the Butlers landfill provision (other than that arising from changing discount rates) increases or decreases the asset and its corresponding revaluation reserve as opposed to being expensed in the Statement of Comprehensive Revenue and Expense. The 2017 increase had been expensed incorrectly. The discount rate error and incorrect accounting were corrected in 2018 by restating the 2017 comparative financial information.

Group audit

The component auditor issued a modified audit opinion on 20 November 2018 for Westland Holdings Limited (WHL). An 'except for' opinion was issued, limiting the scope of the qualification to the carrying value of the airport related assets because there was evidence that the airport related assets may be impaired. As WHL, through its subsidiary, has not determined the quantum of the impairment, the auditor could not express an unqualified opinion on the accuracy of the carrying value of the airport related assets.

Significant audit effort was also put into the going concern assessment of Destination Westland Limited (DWL). DWL was only accepted as a going concern due to Westland Holdings Limited's letter to the DWL directors committing to provide ongoing financial support if required.

As part of the group audits the processes for appointing directors and legality of a dividend payment were assessed. In both cases procedural issues were noted meaning the decisions did not follow either the subsidiaries' constitutions or the Companies Act 1993.

The legal compliance processes of the group need to be improved.

Thank you

We would like to thank the Council, management and staff for their assistance and cooperation during the audit process. We recognise that the process was difficult and strained the relationship. We look forward to discussing this report and debriefing the 2018 audit with the Council and management in 2019.



Scott Tobin
Appointed Auditor
4 February 2019

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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 and key recommendations

The following table summarises our recommendations and their priority.

Recommendation	Reference	Priority
<p>Preparation for audit</p> <ul style="list-style-type: none"> • A quality review of the draft annual report be performed before it is provided for audit. • A complete substantiation file be produced to support the information in the Annual Report. • Review year-end adjustments and the completeness and accuracy of accruals and changes to provisions. 	2.3	Necessary

Recommendation	Reference	Priority
<p>Asset condition information</p> <ul style="list-style-type: none"> The Council continues to improve its asset information; and ensure the condition information is considered at part of the 2018/19 infrastructure valuations. 	3	Necessary
<p>Service request system</p> <p>Implement systems and controls to ensure the information recorded in the service request system is complete and accurate.</p>	3	Necessary
<p>Assets and asset revaluation</p> <ul style="list-style-type: none"> That all assets within a class should be revalued to ensure compliance with accounting standards. This includes assets in subsidiaries. The Council consider aggregating and revising the existing asset classes for land and buildings. That management carry out regular reviews of the fixed assets register (FAR) to confirm the existence and ownership of assets. Management need to improve the in-house fair value assessment in 2019. Infrastructure assets be revalued in 2019. 	3.1 and 6.2 3	Necessary
<p>Rates</p> <ul style="list-style-type: none"> The Council put processes in place to ensure compliance of its rates setting and collection processes with legislation. An independent check of rates calculations be performed to ensure that they are accurate. A control be put in place to ensure that the rates levied are consistent with the rates resolution. 	4.1	Necessary
<p>Landfill provision</p> <p>The Council should change its accounting policy of recognising landfill assets at revaluation to the cost method. Revaluing landfill assets creates a high level of accounting complexity that is not necessary.</p>	4.2	Beneficial

Recommendation	Reference	Priority
<p>Traffic counts</p> <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>	4.3	Necessary
<p>NZTA claim process</p> <ul style="list-style-type: none"> • Improve the process for compiling NZTA subsidy claims to ensure they align to the GL. • Introducing an independent, evidenced review of the claim before it is submitted. 	4.4	Necessary
<p>Super-user access</p> <p>The current super user access rights should be reviewed and employees who do not require system admin access removed.</p>	4.5	Necessary
<p>Information systems</p> <p>Increase the maturity of the information systems management framework and supporting processes by:</p> <ul style="list-style-type: none"> • Developing an information systems strategic plan. • Developing an information security policy. • Documenting user account security criteria and improve password strength. • Reviewing vendor support accounts and ensure access is required. • Improving change management processes – perhaps through the use of SpiceWorks. • Tracking and managing incidents – perhaps through the use of SpiceWorks. • Periodically testing back-ups. • Updating the Disaster Recovery and IT Business Continuity Plans. 	5	Necessary
<p>Inconsistent group accounting policy</p> <p>That the Council ensures consistency in group accounting policies going forward.</p>	6.2	Necessary
<p>Appointment of directors to subsidiaries</p> <ul style="list-style-type: none"> • Consideration should be given to whether ratification of historic appointments are required. • 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. 	6.3	Necessary

2 Our audit report

2.1 We issued an unmodified audit report



We issued an unmodified audit report on 22 November 2018. This means we were satisfied that the financial statements and statement of service performance 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 matters identified in sections 3 to 6 of this report.

2.2 Uncorrected misstatements

The financial statements are free from material misstatements, including omissions. During the audit, we have discussed with management any misstatements that we found, other than those which were clearly trivial. The misstatements that have not been corrected are listed in Appendix 2 along with management's reasons for not adjusting these misstatements. We are satisfied that these misstatements are immaterial.

2.3 Corrected misstatements and the quality and timeliness of information provided for audit



Management needs to provide information for audit relating to the annual report of the Council. This includes the draft annual report with supporting working papers.

We agreed a timetable with management for the provision of information as part of the audit plan issued on 10 July 2018. This included the dates we required the information to be provided to us to assist us meeting the Council's annual report adoption timetable. The draft annual report provided for audit was in line with this agreed timeframe which was a significant achievement in the circumstances. However, the process could have been improved by a detailed review taking place prior to the audit commencing.

In addition, we provided an audit requirements schedule and received a partially complete substantiation file, with additional information provided when requested. The audit process would be more efficient if a complete file was produced, which included all the information used by management to compile the annual report.

Refer to Appendix 3 for a summary of the corrected misstatements noted from our audit. The adjustments made altered the surplus in the draft financial statements presented for audit by \$2 million. The significance of the adjustments, and the unadjusted amounts in Appendix 2, show that year end processes require improvement, and a review of accruals, particularly those originating from the assets team, is required before being included in the ledger.

There were also numerous disclosure issues found, and corrected. Insufficient time and expertise had been applied to review the information provided to us for audit. Vacancies in the Finance and Corporate Planning team, late receipt of information and changes in audit team and its focus were all elements that contributed to this matter.

3 Matters raised in the Audit Plan



In our Audit Plan of 10 July 2018, we identified the following matters as the main audit risks and issues:

Audit risk/issue	Outcome
Asset valuations and fair value assessments	
<p>PBE IPSAS 21 Impairment of Non-Cash-Generating Assets and PBE IPSAS 26 Impairment of Cash Generating Assets require assets held at cost to be assessed for indicators of impairment on an annual basis. PBE IPSAS 17 Property, Plant and Equipment requires revalued assets to be carried at a revalued amount that does not differ materially from fair value as at reporting date.</p> <p>The Council last revalued its infrastructure assets at 30 June 2016. It was two years since that valuation. The Council needed to perform an assessment to determine whether the carrying value at 30 June 2018 continued to represent fair value. Where that assessment indicated a material difference, say due to changes in construction costs or due to improved underlying information, then a revaluation would be required.</p> <p>Land and buildings were last revalued at 30 June 2015. The Council’s policy is for the valuations to be performed at least every three years which means a valuation is was required at 30 June 2018.</p> <p>We also expected the Council to have completed an impairment assessment to determine whether any assets will need to be impaired. This includes an assessment of the museum building.</p>	<p>Valuation</p> <p>Land and buildings were revalued as at 30 June 2018 by Preston Rowe Paterson. The assets were valued using market-based evidence except for specialised buildings which were valued using depreciated replacement cost because no reliable market data is available for such buildings.</p> <p>The resulting movement was a decrease of \$341,000. This can be attributed to a more detailed assessment being performed by the current valuer. In particular, the valuer noted several buildings that were below 33% of the building code and were earthquake prone.</p> <p>We confirmed that Preston Rowe Paterson prepared the valuation in accordance with PBE IPSAS 17 and relevant valuer standards.</p> <p>We assessed the processes and procedures supporting the integrity of the underlying data and schedules. We also performed a review of the calculations and methodology used.</p> <p>We found that the processes, assumptions and calculations are reasonable and consistently applied. We concluded that the revaluation and the associated disclosures were materially correct in the annual report.</p> <p>From our review we noted a number of findings and areas for improvement that the Council will need to consider. Refer to section 3.1 of this report.</p> <p>Fair value assessment/impairment</p> <p>For all assets carried at revaluation and not valued in 2018, management carried out an assessment to determine whether the</p>

Audit risk/issue	Outcome
	<p>carrying value at 30 June 2018 continued to represent fair value. The assessment was not completed well and only reflected a one year index movement and not two.</p> <p>We performed our own assessment and determined that the value had not moved materially, but we consider by 30 June 2019 it is probable that there will be a material movement in infrastructure assets. These assets are due to revaluation in 2019.</p> <p>Recommendations</p> <ul style="list-style-type: none"> • Management need to improve the in-house fair value assessment in 2019. • Infrastructure assets be revalued in 2019. <p>Management Comment</p> <p><i>The previous FVA was completed on behalf of council by an external consulting company - ANA group. When asked to review the FVA prior to audit there was a distinct lack of understanding around how the FVA was set and no files could be sourced to reverse engineer these figures. ANA Group failed to reply to the numerous attempts to contact them. Going forward WDC approach to Asset Information is to ensure these are managed in-house through our own resources.</i></p> <p><i>Based on this we agree with the recommendations and will conduct the revaluation as per the requirements.</i></p>
Asset condition information	
<p>The 2018-28 LTP received a qualified audit opinion due to limitations in the underlying condition data for three water assets and because the financial forecasts did not include renewals for non-critical three water assets.</p>	<p>Management are in the process of improving the Council's asset condition information as well as the policies and processes in place for managing assets. The Council's assets team is at full strength having appointed a new Transportation Manager and Operations Manager during the year.</p> <p>We note that the Council is carrying forward a significant amount of capital works that have either been deferred or re-scheduled in the 2018-28 LTP. Deferral of significant capital works has the potential to impact on</p>

Audit risk/issue	Outcome
	<p>the levels of service provided by the Council, particularly when this relates to renewals.</p> <p>Asset condition information will form a significant element of the 2018/19 infrastructure asset valuation and management will need to ensure that this has been adequately considered by the valuer.</p> <p>Recommendation</p> <ul style="list-style-type: none"> • The Council continues to progress improving its assets information. • Ensure the condition information is considered at part of the 2018/19 infrastructure valuations. <p>Management Comment</p> <p><i>Our asset information requires a considerable amount of attention to update and cleanse the data as a basis for revaluation in 2019. We have secured additional and dedicated resourcing to allow this to occur. The AMP's will also be reviewed and updated accordingly.</i></p> <p><i>Asset condition rating has already commenced this year with CCTV for pipes and visual inspections on pipes and footpaths.</i></p>
Statement of Service Performance	
<p>In the 2017 audit delivery of service performance information caused delays to the audit process. A significant contributor to this was staff turnover.</p> <p>We identified a number of required improvements to the systems to capture and report performance information, especially to the customer complaints/services requests systems and dry weather overflows measures.</p>	<p>We reviewed the Council's reported performance measures and results against its annual plan, the 2015-25 LTP and relevant supporting documentation.</p> <p>We also confirmed that the performance information is fairly stated in the final annual report. All material performance measures were reported against in the annual report and the level of detail provided to the reader of the annual report was appropriate.</p> <p>Our particular focus for the current year was on the systems and processes in place for recording service request data used to report customer satisfaction and response time results in the Council's Statement of Service Provision (SSP).</p>

Audit risk/issue	Outcome
	<p>The service request system is used to identify the nature of the requests and identify complaints that are required to be reported in line with the Department of Internal Affairs (DIA) mandatory performance measures. Management have improved their understanding of the DIA requirements and all service requests were reviewed at year end to ensure that any complaints were appropriately categorised for inclusion in the SSP.</p> <p>The Council continued to be unable to report accurately on response time data. This prevented the Council from recording results in relation to some performance measures. We understand the Council is looking to introduce more automated logging processes to ensure response times are logged on a timely basis to ensure that future reporting is accurate and complete.</p> <p>Recommendation</p> <p>Implement systems and controls to ensure the information is recorded in the service request system is complete and accurate.</p> <p>Management Comment</p> <p><i>The service request system is primarily used to track user requests in regards to repairs and maintenance or a failure to deliver a service. Not all are complaints but rather observations. The significant proportion of the Service Requests relate to roading (i.e. potholes etc.) or water related issues (leaks etc.). These requests are prioritised and discussed with the relevant contractors for repair on a regular basis. The oversight of this system is by the BSO (Business Support Officer – DA) – this role has been vacant for some time and will be filled at the start of 2019. Attention and reporting on the correct process for updating and maintaining the system will be reviewed in 2019.</i></p>
Changes in group structure	
Two of the Council’s subsidiaries, Hokitika Airport Limited (HAL) and Westland District	We have considered the impact of the amalgamation on the Council from both an

Audit risk/issue	Outcome
<p>Properties Limited (WDPL) have amalgamated effective 29 June 2018 to form DWL.</p> <p>Additional functions are proposed to be transferred from the Council to DWL.</p>	<p>operational and financial reporting perspective. We have provided an assessment of the amalgamation in section 6 of this report.</p>
Procurement	
<p>The Council is subject to an ongoing Office of the Auditor General (OAG) inquiry around the procurement processes for the Franz Josef stopbank improvement completed in 2018.</p> <p>Given the size of public sector purchasing and the use of public money, procurement is an ongoing area of focus generally across the public sector.</p>	<p>In December 2017 the OAG announced an inquiry under S18 of the Public Audit Act of the Council's procurement of a \$1.3 million stopbank in Franz Josef.</p> <p>The inquiry continues, and the Council has not been made aware of the provisional findings at this point. As part of the inquiry, two matters were identified that were considered to potentially impact the audit opinion. Those matters were:</p> <ul style="list-style-type: none"> • whether, in relation to the decision, the Council complied with its decision-making obligations under the Local Government Act 2002 (LGA), in particular section 97, but also the general decision-making obligations under sections 77-82; and • whether the Council acted outside the scope of the resolution approving the works, which was to “maintain the flood embankment”, not construct a new stopbank. <p>The OAG sourced an external legal opinion which concluded that:</p> <ul style="list-style-type: none"> • There was a potential breach of the LGA around decision-making and the 5 July decision could have been challenged by judicial review. However, for practical purposes this point is now moot. The resolution has been implemented, so it is not likely a Court would now accept a judicial review challenge to it. • The construction of the stopbank may not have been authorised based on the wording in the resolution. Acting outside of a Council resolution may

Audit risk/issue	Outcome
	<p>result in potentially serious legal consequences for both the Council and any individuals involved, if their actions:</p> <ul style="list-style-type: none"> ○ are found to be criminal (e.g. in breach of the Resource Management Act 1991) or ○ result in civil liability (e.g. if loss is caused to a third party as a result of the stopbank failing due to a design flaw). <p>It was determined that given the uncertainty over the legal situation, the ongoing inquiry and that the Council had not had the chance to consider or respond to the findings or legal opinion, that no reference was required in the audit report. Instead, relevant wording has been included in the independence section of the audit report as follows:</p> <p><i>In addition, the Auditor-General is carrying out an inquiry under section 18 of the Public Audit Act 2001 into the Council's procurement of remedial works for the Franz Josef wastewater plant.</i></p> <p>From an annual report perspective, we are satisfied with the accounting and presentation of the stopbank in the financial statements. We substantiated the \$1.3 million to invoices. The asset has been appropriately capitalised and not depreciated.</p> <p>However, we note that at the time of issuing this report we are awaiting information from management to complete our review of four contracts award by the Council in 2018. Our review is focusing on whether these contracts have been awarded in line with the Council's approved procurement policies and procedures. If applicable any, findings noted will be reported to the Council in a separate report.</p>
The risk of management override of internal controls	
There is an inherent risk in every organisation of fraud resulting from management override	In response to this risk, we have:

Audit risk/issue	Outcome
<p>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>	<ul style="list-style-type: none"> • tested the appropriateness of selected journal entries; • reviewed accounting estimates for indications of bias; and • evaluated any unusual or one-off transactions, including those with related parties. <p>No issues noted from our review.</p>

3.1 Findings from our review of the 2018 valuation

3.1.1 Land and buildings not valued

Not all assets within the land and building classes have been revalued. PBE IPSAS 17 requires all assets within an asset class to be revalued at the same time.

The net book valuation of land and buildings before valuation was \$43 million. Of these, \$23 million was not revalued. Our analysis indicated that these assets had not been revalued since 2011. Accordingly, we performed an assessment to determine the likely impact if these assets had been included in the valuation. We estimated that the assets were likely undervalued by around \$6.1 million and noted that over 95% of assets not revalued were restricted land and this is not depreciated. We accepted these omissions on the basis of materiality. However, the estimated misstatement will continue to increase over time and needs to be remedied.

Recommendations

- The Council consider aggregating and revising the existing assets classes for land and buildings.
- That all assets within a class should be revalued to ensure compliance with accounting standards. This includes assets in subsidiaries.

Management Comment

All buildings were revalued, the land which was not revalued was reserve land. Due to difficulty in selling this type of land and the costs behind any sale likely to offset any revaluation increase, the land was not revalued, this is consistent with the treatment in other West Coast Councils.

However, it is noted that Westland District does have significantly more reserve land therefore staff will review the status.

3.1.2 Duplicate assets

In 2015 the Council identified \$1 million of 'found assets' as part of the land and buildings valuation. These assets were believed to not be recorded in the accounting records at the time and were therefore added in. As part of the 2018 valuation management identified that these assets had been in the accounting records, and the 2015 adjustment meant they were included twice.

The double-counted assets were correctly removed from the financial statements and fixed asset register (FAR) through retained earnings in 2018.

3.1.3 Disposals

As part of the valuation process, management also identified several assets with a cumulative book value of \$540,000 that did not exist or were not owned by the Council and should not be recorded. No retrospective prior period error adjustment was required as the corrections were not material - just.

We have confirmed that these assets have been correctly disposed of in the current year.

Recommendation

That management carry out regular reviews of the FAR to confirm the existence and ownership of assets.

Management Comment

This action is continuing as part of Council's commitment to improve asset data.

4 Other matters arising from the audit



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

4.1 Rating issues – including non-compliance with the Local Government (Rating) Act 2002 (LGRA)

During the audit we found a significant rates setting issue which we raised with the Council.

In March 2017, as part of the 2017/18 annual plan process, the Council prepared rates calculations and a Funding Impact Statement (FIS). Management recalculated the rates in June 2017. The Council was provided with, and incorrectly adopted, the March calculations as its rates resolution. It then assessed and collected rates based on the June calculations, which differed from the March calculations due to:

- Errors in the March rates figures – especially relating to water rates where the number of connections was overstated, incorrectly reducing the “per rating unit” fixed rate.
- Minor variances between March and June for other rating categories due to updating the Rating Information Database (RID) and other budgetary changes in those three months.

Under the LGRA a Council can only collect the rates it sets by resolution. Overall the Council collected the total amount of rates it required, but from an individual ratepayer’s perspective it collected rates at different amounts compared to the resolution. As a result of the issues noted above the Council assessed and collected more rates by a net \$140,000 (GST excluded) compared to the “per unit rates” in the resolution. This comprised rates over-collected by \$234,000 (mainly water rates) and rates under-collected by \$94,000.

The Council obtained legal advice from Simpson Grierson who noted that the Council did not comply with the LGRA and outlined a few remedial options – noting each was problematic. The advice noted that a reasonable option was to do nothing on the basis that the rates remain valid until legally challenged. The Council have taken the ‘do nothing’ option and included self-disclosure of the assessment issue in the Annual Report in note 3(i) of the financial statements.

This was not the only rating process issue during the year, with rates remissions increasing by \$105,000 to \$233,000 due in part to a system error that resulted in amalgamated properties being charged twice for rates that should have been charged only once.

Also, consistent with previous years, 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). This is a legal requirement of the LGRA.

Recommendations

- The Council put processes in place to ensure compliance of its rates setting and collecting processes with legislation.
- An independent check of rates calculations be performed to ensure that they are accurate.
- A control be put in place to ensure that the rates levied are consistent with the rates resolution.

Management Comment

Your comments are not accepted in full. Council did not over-collect rates. The total amount of rates including each rate type was adopted and rated correctly, and as expected to be collected based on budget. Only the individual rates per rating unit were incorrect on the resolution. The individual rate per rating unit is not a statutory requirement of the resolution, however it is accepted that if they are included in the resolution they should be consistent.

As discussed with Audit NZ staff during the audit, Council have already put in place a rates modelling system which will ensure the non-statutory part of the resolution does not contain incorrect data going forward. This was used for the 2018/19 financial year, and Audit NZ reviewed and agreed correct.

4.2 Prior period error (landfill aftercare provision)

The draft financial statements included an increase in the landfill provision of around \$2 million. We noted that the provision incorrectly included costs for the development, closure and post-closure costs of future landfill cells. This was corrected and the provision altered to correctly only include the closure and post-closure costs of the assets in existence as at balance date.

While investigating this issue we identified that the discount rates used in 2017 and 2018 for calculating the provision were incorrect. The year 1 Treasury spot rate was used and not the weighted average spot rate for the future cash flows. For 2017, this changed the discount rate applied from around 1.9% to 3.1%. The correction meant the 2017 provision was overstated by \$239,000.

In addition, the significant increase in the provision in 2017 was expensed when most should have been regarded as an asset or adjustment to asset revaluation reserves under PBE IPSAS 19 para A4. After the correction of the discount error noted above, we determined that \$551,000 of the 2017 expense related to the open Butler's landfill should not have been expensed. Instead, the increase should be apportioned between the relevant asset's cost and the asset revaluation reserve since the Butler's landfill is revalued.

Management and Audit New Zealand did not detect these issues in 2017.

Cumulatively the \$239,000 and \$551,000 amounted to \$790,000 which exceeded our 2017 materiality threshold. As the misstatements were material, the 2017 financial information needed restatement in accordance with PBE IPSAS 3.

The financial statements were restated appropriately and a note explaining the restatement was included at note 27.

Landfill provision accounting is complex, and is made more complex by the Council's policy of revaluing these assets. This policy is unusual, and to our knowledge not used by other Councils. We suggest the Council change its policy in 2019 and discontinue revaluing the landfill assets. We also note that the landfill has a useful life of 75 years. This seems unusually long and should be reassessed or reconfirmed as part of the accounting policy change.

Recommendation

The Council consider changes its accounting policy of recognising landfill assets at revaluation to the cost method.

Management Comment

Due to time pressures staff relied on the audit management report 2016/17 statement that the accounting treatment was correct in calculating the provision.

The Audit NZ team had spent significant time reviewing the content and accounting of the provision in the 2016/17 before categorically stating in the audit management report 2016/17 that the accounting was correct, staff trusted that this statement was correct.

Council will review the policy.

4.3 Traffic counts – smooth travel exposure performance reporting

The Council does not currently have a traffic count programme in place. In the past this function has been performed by Westroads on a largely ad hoc basis and there are concerns that this process might not achieve sufficient coverage for the Council's smooth travel exposure reporting in the Annual Report. We understand it is intended that the new contractor, BECA, will provide this service in the future and that a programme will be put in place to ensure that the traffic count is conducted appropriately and that enough coverage is gained across Westland roads.

Recommendation

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.

Management comment

The recommendation is accepted.

4.4 NZTA claims process

For the 2018 year the process for compiling NZTA claims was poor. A spreadsheet was used that did not link to the general ledger, with manual input used. Claims were reviewed, but no evidence of the review retained. For a claim we reviewed the claim did not agree to the spreadsheet used to compile the claim.

Given the process issues, we attempted to reconcile the June claim to transactions in the ledger. The variances identified in the process meant we extended our work to reconcile the claims for the whole year. Overall we found variances across many claim line items. The reasons for this are not clear. In aggregate we calculated that the Council over claimed \$32,000 from NZTA.

Recommendations

- Improve the process for compiling NZTA subsidy claims to ensure they align to the GL.
- Introducing an independent, evidenced review of the claim to supporting documentation before it is submitted.

Management comment

The recommendations are accepted.

4.5 Super-user access in MagiQ

During our review of users' access rights within MagiQ, we noted that four staff have system admin (i.e. super-user) access. This increases the risk of override of internal controls, hence the number of super-users should be kept to a minimum.

Recommendation

That the current super user access rights are reviewed and employees who do not require system admin access are removed.

Management comment

This area is currently under review as IS staff are carrying out a review of all staff access, it is intended that access will be role based, and any changes requested for that role will require an IS change process which will need to be documented and signed off before any change is made.

4.6 CEO Remuneration

We found that the CEO was paid a Kiwisaver employer contribution on top of his salary despite the contract stating that the salary was inclusive of any Kiwisaver contributions (both employee and employer).

This occurred because the Council used a standard local government contract for the CEO position rather than the Council's normal Individual Employment Agreement format. The local government template states that the salary is inclusive of Kiwisaver employer contributions whereas the Council's standard practice is to pay this on top of any agreed salary.

At the Council meeting on 11 October 2018, it was approved that the Kiwisaver employer contribution should be included on top of the CEO's salary as per the Council's policy. This is an appropriate response.

5 Information technology (IT) assessment



The following section outlines our observations and matters that were identified in our assessment of the IT environment.

5.1 Overview

The processes in place at the Council are shown to be currently meeting operational requirements. Due to the relatively small size of the Council, processes have evolved over time as the need occurred. The processes, while generally meeting expectations, are not well documented. While we consider the processes overall effective, we also consider the risk present in the current approach to be higher than that of organisations with a more mature and structured approach. We understand that there has generally been one primary IT staff, the IT Manager. Considering the scope and span of coverage required to support the Council, this is notable. It also explains the relative lack of documented process as operational requirements take precedence over documentation.

Over the years, information systems have come under increasing scrutiny and risk of exploitation or breach. Breaches have had notable public relations and reputational adverse effects as can be observed from a number of recent media reports around New Zealand.

Acting on our recommendations should serve the Council well as evidence of due diligence if the Council is faced with the real risk of an information security or privacy related breach in the future. In addition, improving maturity of information systems related process documentation will smooth the transition to new staff in the next few years.

5.2 Recommendations

As a matter of good practice, the following should be considered to increase the maturity of the information systems management framework and supporting processes.

5.2.1 Developing an information systems strategic plan

The first item should be the Information Systems Strategic plan (ISSP) which is designed to support and facilitate the Council's strategic direction and serve as a foundation to enable relevant information systems capability and capacity. We note that a draft version of this plan was being white boarded during our visit to the Council. All of the following points could be ultimate outcomes of the ISSP and related programme of work. An effective ISSP is supported by the executive leadership and governance of the organisation.

Management comment

This is already in progress as Council had already identified this as a benefit.

5.2.2 Developing an information security policy

Information Security Policy to highlight information security responsibilities of staff, Councillors and other stakeholders

<https://www.csoonline.com/article/2124114/it-strategy/strategic-planning-erm-how-to-write-an-information-security-policy.html>

Management comment

This is being considered as part of the overall review of IS.

5.2.3 Documenting user account security criteria and improve password strength

Document outside of active directory the standard user account security criteria in line with good practice and information security requirements. Also, increase password history value to eight or more (two plus years before reuse).

Management comment

Council IS staff disagree with this comment in part. Passwords are set to be changed every 90 days, changing this to 30 days is overkill and not beneficial.

Password history value will be changed to eight or more.

5.2.4 Reviewing vendor support accounts and ensure access is required

For vendor and tech support Active Director domain administrator accounts: Confirm that vendor tech support still requires domain administrator rights. Determine if this is manual by vendor personnel or automatic by vendor systems. If manual, work with the vendor to determine when they need access and process for notification so the account can be disabled at other times. Determine if vendor support accounts can be named to a specific user instead of the vendor generally. For internal IT support, use admin accounts that are only used for domain admin work (Example PeterAdmin or whatever makes sense for the Council).

Management comment

To be reviewed.

5.2.5 Improving change management processes – perhaps through the use of SpiceWorks

Change management - We understand that key change areas of the production servers and MagiQ software are supported by the vendors responsible for these systems (IT@work and MagiQ). We also understand that the Council has a Business Analyst who is a relatively recent hire. We further understand that the person in this role is assessing the entire change management approach and will be working to bring it to an appropriate level of maturity. We recommend that this include visibility of vendor managed changes as well as

those done in house. We note that the SpiceWorks service management software is already available to the Council and may be a suitable tool for tracking and oversight of change management.

The following should be considered as this process is matured:

- Requests for program changes.
- System changes and maintenance (including configuration changes) should be logged, approved, and documented and subject to formal change management procedures.

Management comment

Spiceworks is used, however IS staff will review this as part of the IS review that is currently in progress.

5.2.6 Tracking and managing incidents – perhaps through the use of SpiceWorks.

Due to the small size of the Council, the IT Manager has been able to successfully manage and handle service requests and incidents as they come about. While this approach has been effective and IT has stayed on top of this, there is increased risk an item may fall through the cracks or that the rationale for a certain response cannot be documented/shown in the event an incident becomes public. We therefore recommend the use of the SpiceWorks service management tool (already available at the Council) to manage and track incidents as part of the overall maturation process.

Management comment

Spiceworks is used, however IS staff will review this as part of the IS review that is currently in progress.

5.2.7 Periodically testing back-ups.

Testing of back-ups is done on an ad hoc basis over time. This should be formalised into periodic testing so that all back-up servers can be confirmed to be operational and reachable from the Christchurch location as well as being brought back up in the Hokitika location.

Management comment

These tests do occur regularly by our vendor, however IS staff will look to formalise in order to be able to document and treat as part of DR and BCP.

5.2.8 Updating the Disaster Recovery and IT Business Continuity Plans.

The back-up testing item supports the updating of the Disaster Recovery (DR) and IT Business Continuity plan (BCP). We understand the current documented DR plan is obsolete

as it is out of date and does not support the actual plans that would be used to recover from a disaster and support the Council's business continuity objectives. This should be updated to the current state for DR and BCP support. This item was previously identified during our interim audit work.

Management comment

These plans will be updated as previously identified in the interim audit.

6 Group audit



The group comprises:

- Westland District Council
- Westland Holdings Limited

We have not identified any of the following during our audit for the year ended 30 June 2018:

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

6.1 Westland Holdings Limited (WHL)

6.1.1 Audit opinion

The component auditor issued a modified audit report for WHL due to the scope of the audit being limited in respect of the carrying value of the airport assets.

The basis for this qualification is as follows:

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

At the group level, the impairment issue is not applicable for the Council as the assets are not held as cash generating and do not have to be assessed for impairment based on the associated future cash flows. Instead the airport assets are held for strategic purposes by the Council to allow for better access to the district, not to make a profit. Therefore the carrying value of the assets in WHL's financial statements, which is cost, is appropriate for inclusion in the Council's group financial statements.

6.1.2 Amalgamation between Hokitika Airport Limited (HAL) and Westland District Properties Limited (WDPL)

Over the last few years the WHL group have been looking to change the group organisational structure to streamline the group's operations. As a result, HAL and WDPL were amalgamated effective 29 June 2018.

HAL was the continuing company, with WDPL ceasing to exist from this date. Following the amalgamation, HAL changed its trading name to Destination Westland Limited (DWL) through resolution on 2 July 2018.

DWL's amalgamation followed a consolidation approach and recognised the revenue, expenses, assets and liabilities of the amalgamated company from the start of the comparative year as though the companies had always been a single legal entity. This approach was deemed reasonable and has no implications for the Council group financial information.

During the LTP process the operation of the following activities were approved to be transferred to DWL from 3 July 2018:

- the Hokitika Museum;
- West Coast Wilderness Trail;
- Hokitika i-SITE; and
- events portfolio including Hokitika Wildfoods Festival.

In the 2017/18 year, these four activities have a combined net budgeted cost of \$606,438 (excluding overheads) within the Council. The Council transferred these operations to DWL with associated funding of 80% of the net cost.

DWL and its predecessor entities, HAL and WDPL, have run with very small profits or losses in successive prior years and a small loss in the current 2018 year. The poor historic performance and additional, not fully funded activities called into question the financial viability of DWL for 2019 and beyond.

Due to the weak financial situation of DWL, and uncertainties around its future financial performance after including the additional functions, the going concern assumption was accepted only based on the letter of support from DWL's parent WHL. The letter confirmed that WHL would provide ongoing financial support to DWL if required to ensure it remained financially viable. An emphasis of matter paragraph was added to the DWL audit report to draw attention to this fact. The inclusion of an emphasis of matter paragraph was also influenced by DWL's significant external loans which were unpayable as they fell due, and the term extended by the bank based on another letter of support from WHL.

6.2 Inconsistent accounting policies

The Council's subsidiaries record land and buildings at cost, while the Council revalues them to fair value (refer point 3.1). This is not consistent with PBE IPSAS 17 which states an entity shall choose either the cost model or the revaluation model as its accounting policy and shall apply that policy to an entire class of property, plant and equipment. For 2018 we accepted the different treatment because WHL group land and buildings are only \$3.6 million and are not significant in the context of the Council's land and buildings of \$43 million.

Recommendation

That the Council ensures consistency in group accounting policies going forward.

Management Comment

Council will continue to use the revaluation model, and expects CCOs to comply with Council policy. WHL chairman is in discussion with CCOs to facilitate consistency with Council policy.

6.3 Director appointments

The historic appointment of directors within DWL have been subject to various procedural flaws which have been examined by the OAG legal team.

6.3.1 DWL

Based on the information we have been provided with, the initial appointment of the four directors of HAL and WDPL in December 2016 and March 2017 does not appear to have been carried out correctly. In particular, the appointments do not appear to have been made by WHL, as required by the companies' constitutions, but instead by the Council.

The directors of both companies were re-appointed in October 2017 at the companies' Annual General Meetings (AGM). It is unclear from the minutes of these Annual General Meetings whether the re-appointments were legally effective because it is not clear who took part in the decision to re-appoint. If the decision to re-appoint was made by the directors of WHL and not others present at the AGM, acting in their capacity as representative(s) of the shareholder of the companies, the decision to re-appoint is probably valid, even though these may be subject to various procedural flaws.

6.3.2 Other findings from the review

There appear to be a number of problems with compliance with the Companies Act in relation to retention of records by the Group and filing of documents with the Companies Office. Some of these types of breaches are offences under the Act and can create liability for both directors and the company.

The minutes of the AGM meetings for the Group have highlighted some concerns. It is not clear from the meetings the capacity in which people are attending, and therefore who has the right to participate and vote on matters at the meetings

Recommendations

- 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.
- Consideration should be given to whether ratification of appointments are required.
- 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.

6.4 Dividend payment

WHL paid the Council \$120,000 as a dividend. However, the directors of WHL did not resolve to pay the dividend nor complete a solvency test – both are Companies Act 1993 requirements. We accepted the dividend payment as such in the Council's financial statements because the amount had been received and was clearly revenue of some sort irrespective of the procedural issues in declaring it. However, this is just another point that highlights the cumulative issues present in group practices.

It is expected that the appointment of new directors to WHL and the restructure of the group will mean issues like those listed above do not recur in 2019.

7 Public sector audit



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

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

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

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

For matters pertaining to statutory obligations, refer to sections 4 and 6 of this report.

We did not identify any issues as a result of our testing for matters of performance, waste and probity. However, we note the ongoing OAG inquiry around the procurement of the Franz Josef stopbank which may impact some of the matters listed above.

We also note that we have yet to complete our review of a sample of the Council's 2018 procurement decisions as we are awaiting the requested documentation.

8 Useful publications



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

Description	Where to find it
Client updates	
<p>In March 2018, we hosted a series of client updates. The theme was “Our high performing and accountable public sector”.</p> <p>These included speakers from both Audit New Zealand and external organisations.</p>	<p>On our website under publications and resources.</p> <p>Link: Client updates</p>
Model financial statements	
<p>Our model financial statements reflect best practice we have seen to improve financial reporting. This includes:</p> <ul style="list-style-type: none"> • significant accounting policies are alongside the notes to which they relate; • simplifying accounting policy language; • enhancing estimates and judgement disclosures; and • including colour, contents pages and subheadings to assist the reader in navigating the financial statements. 	<p>On our website under publications and resources.</p> <p>Link: Model Financial Statements</p>
Tax matters	
<p>As the leading provider of audit services to the public sector, we have an extensive knowledge of sector tax issues. These documents provide guidance and information on selected tax matters.</p>	<p>On our website under publications and resources.</p> <p>Link: Tax Matters</p>

Description	Where to find it
Data in the public sector	
<p>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"> • functional leadership; • building capability and capacity; • collaboration; and • security. 	<p>On the OAG’s website under publications.</p> <p>Link: Data in the public sector</p>
Audit Committees	
<p>The OAG has released various best practice information on Audit Committees.</p>	<p>On the OAG’s website under “Our Work – Audit Committee Resources”</p> <p>Link: Audit Committee Resources</p>
Infrastructure as a Service	
<p>The OAG has completed a performance audit on Infrastructure as a Service and considered whether the benefits are achieved.</p>	<p>On the OAG’s website under publications.</p> <p>Link: Infrastructure as a Service</p>

Appendix 1: Status of previous recommendations

Open recommendations

Recommendation	First raised	Status
Necessary		
Revaluation of the Council group land and buildings		
All entities in the 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.	2017/18	Land and buildings at the WHL component level are still recorded at cost as opposed to the revaluation method used by the Council.
Risk Management		
<p>Ensure continual review and update of the risk register and implementation of any mitigating actions identified.</p> <p>We encourage the Council to ensure that the new risk management system Quantate is fully implemented to help better identify, evaluate, monitor and manage risk.</p>	2016/17	<p>Partly addressed</p> <p>The risk register is updated as required.</p> <p>However, the Council is yet to fully implement the Quantate system.</p>
Asset Management		
Work to address the shortcoming in the current asset management practises, as identified through the LTP process.	2017/18 LTP	<p>Management are working to improve the systems and processes for recording asset condition data and reviewing assets to ensure asset condition data is up to date.</p> <p>This will be considered again in detail as part of the infrastructure asset valuation review in 2018/19.</p>
Staff interest register not up to date		
The Council should ensure that the completion of the staff conflict of interest declarations is mandatory and non-completion should be followed up.	2017/18	As part of our testing of related party transactions we carried out a search of the Companies Office website. Our review noted that there were still some councillor interests that had not been captured in the register. We have confirmed as part of our testing that the Council had not had any transaction with the undisclosed interests. However, it is

Recommendation	First raised	Status
		<p>best practice to ensure all interests are captured in the register.</p> <p>Management comment</p> <p><i>The Councillor interest register is circulated at every meeting, it is the responsibility of Councillors to update the register.</i></p> <p><i>A follow up process for staff has been implemented, and the process now provides for the staff interest register to be circulated twice yearly. The intention is that this process can be managed through the HR system once implementation is complete.</i></p>
Fixed asset capitalisation policy		
Develop a formal asset capitalisation policy.	2017/18	Management intend to develop an Asset Policy or similar for capitalisation of assets. Management will continue to scrutinise expenditure in the meantime to identify potential assets for capitalisation.
SSP – no clear guidance on the customer satisfaction measure		
Implement clear guidance outlining what constitutes a customer complaint in line with DIA requirements.	2017/18	Formal guidance is yet to be developed to outline the DIA requirements for reporting.
Compliance with resource consents		
Improve the knowledge gap regarding the systems and processes for monitoring compliance with the Council’s resource consents.	2017/18	Future monitoring and reporting procedures are under review with the Regional Council to improve combined workflow processes.
Legislative compliance - CCOs		
The Council should work with its CCOs to ensure compliance with the significant legislative requirements.	2016/17	<p>The draft 2018/19 SOI was not provided to the Council before 1 March (provided on 3 April 2018).</p> <p>Also refer to section 6 of this report for issues noted with the director appointments for the DWL and dividends</p>

Recommendation	First raised	Status
		In addition, WHL have not met its statutory deadline of 30 September this year.
Renewals under expenditure		
The Council should ensure planned renewal expenditure is sufficient to avoid significant failure of assets in future years due to delayed maintenance not being carried out.	2017/18 LTP	Management are in the process of reviewing assets to understand their current conditions and will use this information to ensure that future renewals programmes are reasonable.
FAR in a manual excel spreadsheet		
As management is 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.	2016/17	<p>The FAR spreadsheet is reviewed at year end to ensure that it has been updated and calculates correctly. There is no formal sign off as evidence of the review.</p> <p>We would encourage this review to be more regular and formalised.</p> <p>Management Comment</p> <p><i>Noted, the review will be added to the year-end checklist.</i></p>
Service requests		
Improve how information is recorded in the service request system. Refer to table below for details of findings.	2016/17	<p>Management are working towards a more automated system of recording service request data including initial requests and follow up during/post service request completion.</p> <p>Management Comment</p> <p><i>The requirement of recording as either complaint or enquiry is also better understood for reporting purposes.</i></p>
Legislative compliance		
We recommend the 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.	2015/16	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 Electronic Document Management System to provide staff

Recommendation	First raised	Status
Relying solely on the knowledge of staff exposes the organisation to risk, especially when staff change.		with notifications of when key legislative dates are coming up to ensure compliance.
Rates assessment and invoices		
Perform an annual review of the rates assessments and invoices to ensure that they are compliant with relevant legislation and include the correct ratepayer details.	2014/15	We note 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). Management Comment <i>Staff are working with the ERP provider to include all statutory requirements, however the system is limited and challenging.</i>
IT Disaster Recovery Plan		
We recommend the Council consider revising and updating the Plan to reflect the current situation.	2013/14	Refer to the updated overview provided in section 5.
Beneficial		
Property, plant and equipment stocktake		
Perform a physical stocktake to verify if assets included in the FAR still exist.	2016/17	Management are yet to perform a physical stocktake. As part of the 2017/18 land and buildings valuation management identified several assets Council did not own

Service request system

Recommendation	
1	<p>In relation to the system which supports a number of customer requests/complaints measures, develop processes and controls that can be put into place to:</p> <ul style="list-style-type: none"> Record the time of notification and ensure all customer services requests are recorded in a consistent manner (i.e. record all calls/complaints about sewerage or drinking water supply in the customer service request system at the time those calls are received).

<ul style="list-style-type: none"> • Accurately record the time of attendance by the contractor – explore options with the contractor to record job data and auto-update the information in the customer service request system. The Council needs to consider what controls it can put in place to ensure that the attendance time recorded on the paper job card is transferred accurately into the service request system; (Contractors now access to the system to record the time of attendance). • Accurately record the resolution time by the contractor. The same considerations need to be given to this as above for attendance times. • Provide training and develop guidance material for the customer service officers that are taking the calls in the first instance so that the classification for such events is accurate. <p>2 For information provided from the contractor, the Council will need to engage and train the contractor on how to record the required information. The contractor may need live access to the service request module to achieve this (contractors do have access).</p>
Progress

Implemented or closed recommendations

Recommendation	First raised	Status
Reminding staff about ethical policies		
Staff should be reminded of the ethical and integrity policies in place, such as the code of conduct and sensitive expenditure policies, and the need to ensure that information held by the Council is appropriately controlled.	2017/18	<p>Policies have been communicated to staff.</p> <p>In addition in 2017/18 the Council have updated their Sensitive Expenditure policy. The management team plan on revisiting the Council's strategy which will include a full review of the Council's values.</p> <p>The Council intend to use the new online HR system as much as possible to assist with the above strategy.</p>
Creditors masterfile change reports were not reviewed		
Ensure that processes fundamental to an effective control environment are	2017/18	The 2017/18 masterfile change reports have been retrospectively reviewed and approved.

Recommendation	First raised	Status
<p>documented and discussed as part of hand-over procedures.</p> <p>Ensure that all masterfile change reports for 2017/18 are retrospectively reviewed.</p> <p>The masterfile changes report should be run and reviewed by a senior staff member not involved in processing Masterfile changes.</p>		<p>This requirement has been added to the month end checklist.</p> <p>We will follow up at our 2018/19 interim audit to ensure that review of the reports has taken place on a timely basis.</p>
Untimely review of balance sheet reconciliations		
<p>Ensure that bank reconciliations are reviewed on a timely basis.</p> <p>Retrospectively review bank reconciliations that have not been inspected during the 2017/18 period.</p>	2017/18	<p>The 2017/18 balance sheet reconciliations have been retrospectively reviewed and approved.</p> <p>We will follow up at our 2018/19 interim audit to ensure that review of the reconciliations has taken place on a timely basis.</p>
Asset disposal not approved prior to sale		
<p>Obtain signed approval for all asset disposals prior to the sale taking place.</p>	2017/18	<p>Our review of disposals at year end indicated that all disposals had received appropriate approval.</p>
Customer satisfaction measures		
<p>Retrospectively review complaints information to ensure it is complete and accurate.</p>	2017/18	<p>Management have retrospectively reviewed all service requests during the year to identify complaints for inclusion in the SSP.</p>
PAYE exposure		
<p>The Council has a potential PAYE exposure in relation to payments made to former employees as some of the payments made through the settlement agreements were tax free. The Council should seek professional advice and if appropriate consider making a voluntary disclosure to the IRD.</p>	2016/17	<p>A voluntary disclosure has been submitted to the IRD in October 2018 regarding a shortfall of PAYE and FBT. The errors total \$20,434.</p>

Appendix 2: Uncorrected misstatements

Current year misstatements	Reference	Assets	Liabilities	Equity	Financial performance
		Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
Refuse site revenue	1			(\$48,000)	\$48,000
Refuse site revenue	2	\$39,000			(\$39,000)
NZTA revenue	3	(\$32,000)			\$32,000
Total parent		\$7,000		(\$48,000)	\$41,000

Explanation of uncorrected misstatements

- 1 2017 refuse site revenue incorrectly included in 2018 revenue.
- 2 2018 refuse site fees revenue not fully accrued in 2018 and has been included in 2019's revenue.
- 3 2018 NZTA revenue has been over claimed.

Uncorrected disclosure deficiencies

Detail of disclosure deficiency	Management's explanation for not correcting
The contractual maturity analysis for borrowings in note 23 shows carrying values and not the forecast cash flows, including interest payments, as required under PBE IPSAS 30.	The disclosure is consistent with other Council's on the West Coast and is not considered to be material.

Appendix 3: Corrected misstatements

Current year misstatements	Reference	Assets	Liabilities	Equity	Financial performance
		Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
Disposal of Blue Spur land	1			(\$47,000)	\$47,000
Disposal of duplicated assets	2			(\$79,000)	\$79,000
Disposal of revalued shed	3			\$60,000	(\$60,000)
Swimming pool revaluation	4	\$139,000		(\$139,000)	
Provision adjustment	5	\$345,000	\$1,868,000	\$31,000	(\$2,244,000)
Cashier's clearing account	6	\$0			
Employee benefits	7		\$0		
West Coast cycle trail	8	(\$479,000)			\$479,000
Land and buildings revaluation	9			\$330,000	(\$330,000)
Total parent		\$5,000	\$1,868,000	\$156,000	(\$2,029,000)

Explanation of corrected misstatements

- 1 A loss on sale of \$47,000 was incorrectly recognised through OCRE instead of the surplus and deficit. Also, revaluation reserves of \$72,000 were not transferred to retained earnings. Net impact of \$Nil on financial performance and equity.
- 2 To correct the treatment of depreciation on disposal of "found" assets which was reversed against expenditure instead of equity.
- 3 The revaluation adjustment on disposal of assets should go through revaluation reserve as opposed to OCRE.
- 4 To re-allocate the revaluation movement to the appropriate assets.
- 5 The provision was corrected to account for the following:
 - overstatement of the provision by \$2 million to incorrectly account for closure and post-closure costs of developing future cells at the Butlers landfill; and
 - allocating the entire movement in the provision to other expenses as opposed to splitting the increase in the provision between PPE, OCRE, other expenses and

finance costs. This was associated with the prior period error discussed in section 4.2.

- 6 To transfer prepayments of \$49,000 to cash and cash equivalents as payment not made prior to balance date. Net impact of \$Nil on assets.
- 7 To transfer employee benefits of \$138,000 from trade and other payables to employee entitlements. Net impact of \$Nil on liabilities.
- 8 To remove revenue for the West Coast cycle trail as it was accrued as revenue but the Council was not eligible to receive the funding until 2018/19.
- 9 The accounting for the revaluation of land and buildings was not performed correctly and needed to be re-allocated to appropriate areas.

In addition to the above, we note the financial statements were unusually impacted by the following items:

- A prior period error correction relating to the landfill aftercare provision of \$790,000 that has been discussed in further detail in section 4.2.
- Management identified assets that were “found” in previous years totalling \$1 million. It was subsequently realised that these assets were recorded in the fixed asset register and they were required to be split back out.
- Management identified several assets in its fixed asset register that either no longer existed or were no longer owned by the Council and should have been disposed of in previous years. Losses on disposal of \$390,000 have been recognised as expenditure in 2017/18 to dispose of these assets.

Corrected disclosure deficiencies

As part of our audit we identified numerous disclosure errors or deficiencies that were subsequently corrected. We have provided an overview below of the most significant changes.

Detail of disclosure deficiency – financial statements
PPE – the core asset disclosure in Note 13 was changed to include correct figures and add a missing asset category.
PPE – the insurance disclosure in Note 13 was changed to include correct figures.
PPE – the valuation disclosures in Note 13 were adjusted to include appropriate commentary as required under PBE IPSAS 17.
Other expenses – Fees to auditors in Note 6 were updated to include the correct categories.
Provisions – the reconciliation of movements in the landfill provision outlined in Note 16 was added to ensure compliance with PBE IPSAS 16.

Detail of disclosure deficiency – financial statements
Personnel costs – the salary bandings in note 4 were updated to appropriately reflect the salaries at year end.
Other financial assets – various changes were made to asset categorisations (i.e. available for sale and loans and receivables) and the current / non-current split.
Financial instruments – various changes were made to information in Note 23 including the removal of items not regarded as financial instruments, re-categorisation, re-allocation of contractual maturities, updating prior year figures.
Derivatives – the table documenting the interest rate swap contracts in Note 11 was corrected to include missing / incorrect dates.
Trade and other receivables – the time bands in Note 9 were updated to correctly reflect the timing of aged receivables.
Budget figures in the Statement of Comprehensive Revenue and Expense and Statement of Cash Flows were updated to align with the Annual Plan.
Comparative information – adjustments were made to change 2016 information included in comparatives to 2017 information.
Consolidation – adjustments were made due to some areas of the template using hard coded figures.
Financial prudence graphs – the rates affordability, essential services and debt control graphs were not calculated in line with the requirements of the Local Government (Financial Reporting and Prudence) Regulations 2014.

Management Comment

Throughout the audit process Audit NZ asked the finance team to move disclosures around the statements, only to then ask for them to be moved back.

This is time-consuming in itself and prone to cause further errors due to the current manual process of producing the Annual Report document. It is also very confusing to staff, and also does not allow for any review time.

It is unfair to mention that there were disclosure deficiencies by staff when some of these were actually audit issues. For completeness, please mention the disclosure movements that audit requested in error.

Staff were repeatedly asked by different audit staff for the same information, this is time consuming for staff. A complaint to Audit NZ was made on this point during the audit period.

Management are concerned over the audit management process of the 2017/18 financial statements by Audit NZ, and the interpretation differences and inconsistencies between this audit and previous audits.

Detail of disclosure deficiency – statement of service provision

Transport – the change in number of serious injury crashes was corrected from Nil to -2.

Water supply – the safety of drinking water result was corrected from five of nine systems being compliant with bacterial requirements to three of nine.

Wastewater – the fault response times were updated to accurately reflect those logged in the service request system.

Wastewater – the customer satisfaction results were updated to accurately reflect the complaints logged in the service request system.

Numerous references were made to 2016/17 instead of 2017/18.

Commentary was requested to be added in the infrastructure activities where performance measures were not achieved.

Appendix 4: Disclosures

Area	Key messages
Our responsibilities in conducting the audit	<p>We carried out this audit on behalf of the Controller and Auditor-General. We are responsible for expressing an independent opinion on the financial statements and performance information and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001.</p> <p>The audit of the financial statements does not relieve management or the Council of their responsibilities.</p> <p>Our Audit Engagement Letter contains a detailed explanation of the respective responsibilities of the auditor and the Council.</p>
Auditing standards	<p>We carried out our audit in accordance with the Auditor-General’s Auditing Standards. The audit cannot and should not be relied upon to detect all instances of misstatement, fraud, irregularity or inefficiency that are immaterial to your financial statements. The Council and management are responsible for implementing and maintaining your systems of controls for detecting these matters.</p>
Auditor independence	<p>We are independent of the Council in accordance with the independence requirements of the Auditor-General’s Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): <i>Code of Ethics for Assurance Practitioners</i>, issued by New Zealand Auditing and Assurance Standards Board.</p> <p>In addition to the audit we have carried out engagements in relation to the Council’s 2018-28 Long Term Plan and Debenture Trust Deed, which are compatible with those independence requirements. The Office of the Auditor-General is performing an inquiry under S18 of the Public Audit Act on the Franz Josef stopbank procurement.</p> <p>Other than the audit and these engagements, we have no relationship with or interests in the Council or its subsidiaries.</p>
Fees	<p>The audit fee for the year is \$138,000, as detailed in our Audit Proposal Letter.</p> <p>Other fees charged in the period are \$95,000, for the audit of the 2018-28 Long Term Plan, and \$3,000 for the audit of the Debenture Trust Deed.</p>

Area	Key messages
Other relationships	<p>We are not aware of any situations where a spouse or close relative of a staff member involved in the audit occupies a position with the Council or its subsidiaries that is significant to the audit.</p> <p>We are not aware of any situations where a staff member of Audit New Zealand has accepted a position of employment with the Council or its subsidiaries during or since the end of the financial year.</p>

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FINANCE, AUDIT AND RISK COMMITTEE ROLLING WORK PLAN

Item	Feb-19	Mar-19	April-19	May-19	June-19	July-19	Aug-19	Sept-19	Oct-19	Nov-19	Dec-19	Jan-20
External Audit	Audit Management Report 2017/18				Interim Audit 2018/19			Note - Final Audit Annual Report 2018/19 begins Interim Audit Management Report 2018/19 – review action to be taken by management				
Financial Reporting			Quarterly Report to March 2019				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
Insurance										Valuation Information Renewal		
Risk Management Framework	Health & Safety Report		Review Risk Register	Health & Safety Report		Review Risk Register Health & Safety Report			Review Risk Register Health & Safety Report			Review Risk Register Health & Safety Report
Internal Control Framework	Update – Fraud Control Progress Review Protected disclosure policy and Staff Conflict of Interest Policy and recommend adoption to Council.			Update – Fraud Control Progress			Update – Fraud Control Progress			Update – Fraud Control Progress		