



**I, Steven May, Chief Executive Officer, hereby give notice that
a Finance, Audit & Risk Committee Meeting will be held on:**

Date: Tuesday, 15 May 2018
Time: 12.30pm
Location: Council Chamber, Wairoa District Council,
Coronation Square, Wairoa

AGENDA

Finance, Audit & Risk Committee Meeting

15 May 2018

The agenda and associated papers are also available on our website: www.wairoadc.govt.nz

For further information please contact us 06 838 7309 or by email info@wairoadc.govt.nz

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- 1 KARAKIA**
- 2 APOLOGIES FOR ABSENCE**
- 3 DECLARATIONS OF CONFLICT OF INTEREST**
- 4 CHAIRPERSON'S ANNOUNCEMENTS**
- 5 LATE ITEMS OF URGENT BUSINESS**
- 6 PUBLIC PARTICIPATION**

A maximum of 30 minutes has been set aside for members of the public to speak on any item on the agenda. Up to 5 minutes per person is allowed. As per Standing Order 14.14 requests to speak must be made to the meeting secretary at least one clear day before the meeting; however this requirement may be waived by the Chairperson.

7 MINUTES OF THE PREVIOUS MEETING

Ordinary Meeting - 3 April 2018

**MINUTES OF WAIROA DISTRICT COUNCIL
FINANCE, AUDIT & RISK COMMITTEE MEETING
HELD AT THE COUNCIL CHAMBER, WAIROA DISTRICT COUNCIL, CORONATION SQUARE, WAIROA
ON TUESDAY, 3 APRIL 2018 AT 1.30PM**

PRESENT: His Worship the Mayor Craig Little (Mayor), Cr Denise Eaglesome-Karekare (Deputy Mayor), Cr Hine Flood, Cr Jeremy Harker (Chair), Mr Philip Jones

IN ATTENDANCE: S May (Chief Executive Officer), G Borg (Chief Financial Officer), D Moorcock (Interim Corporate Services Manager), C Knight (Governance Advisor & Policy Strategist), S Mutch (Ernest & Young – Partner)

1 KARAKIA

Given by Cr Jeremy Harker

2 APOLOGIES FOR ABSENCE

APOLOGY

COMMITTEE RESOLUTION 2018/40

Moved: His Worship the Mayor Craig Little

Seconded: Mr Philip Jones

That the apology received from Cr Eaglesome-Karekare be accepted and leave of absence granted.

CARRIED

3 DECLARATION OF CONFLICT OF INTEREST

Cr Jeremy Harker declared an other disclosable interest in relation to item 8.3, due to being an employee of QRS.

4 CHAIRPERSON'S ANNOUNCEMENTS

None.

5 LATE ITEMS OF URGENT BUSINESS

None.

6 PUBLIC PARTICIPATION

None.

7 MINUTES OF THE PREVIOUS MEETING

COMMITTEE RESOLUTION 2018/41

Moved: Cr Jeremy Harker

Seconded: His Worship the Mayor Craig Little

That the minutes of the Ordinary Meeting held on 29 November 2017 be confirmed.

CARRIED

8 GENERAL ITEMS

8.1 HEALTH & SAFETY REPORT - APRIL 2018

The Committee discussed:

- Provide some information about high level trends over time
- Sitewise – progress so far and timeframe for getting companies up to standard

COMMITTEE RESOLUTION 2018/42

Moved: Cr Jeremy Harker

Seconded: Mr Philip Jones

That the Committee receive the report.

CARRIED

8.2 RISK MANAGEMENT FRAMEWORK

The Committee discussed:

- Timeframe on other pieces of work on the tender process, contracts and procurement
- Management letters for internal audit in future have estimated deadlines
- Resources required to implement suggestions and approximate timeframes for implementation
- Clarity on risks if risk rating is prior to treatment or after treatment
- Terms of reference review

Next meeting CEO will update the committee on timeframes for next two pieces of work and prioritisation of risk management work coming out of the report.

COMMITTEE RESOLUTION 2018/43

Moved: His Worship the Mayor Craig Little

Seconded: Cr Jeremy Harker

That the Committee receive the report.

CARRIED

8.3 QRS SIX MONTHLY REPORT TO DECEMBER 2017

Cr Jeremy Harker declared an interest in this item and took no part in the discussion or voting on

the matter.

His Worship the Mayor took the chair at 2.04 p.m.

COMMITTEE RESOLUTION 2018/44

Moved: His Worship the Mayor Craig Little

Seconded: Mr Philip Jones

That the Committee receives the report.

CARRIED

8.4 PROPOSAL TO RENDER HBLASS LTD DORMANT

Cr Jeremy Harker took the chair at 2.10 p.m.

The Committee discussed:

- Governance structure
- Independent Chair
- Dormant – can be reactivated at anytime
- Collaboration
- Proposed structure

COMMITTEE RESOLUTION 2018/45

Moved: Mr Philip Jones

Seconded: Cr Jeremy Harker

That the Committee endorses the proposal.

CARRIED

8.5 INSURANCE RENEWAL TERMS 2018-19

The Committee discussed:

- LAPP – customary notice period
- Airport insurance level

COMMITTEE RESOLUTION 2018/46

Moved: His Worship the Mayor Craig Little

Seconded: Mr Philip Jones

That the Committee endorses the renewal terms proposed and give notice to the Local Authority Protection Programme to withdraw, reserving a decision until it's future becomes clear.

CARRIED

8.6 FINANCIAL PERFORMANCE TO 28 FEBRUARY 2018

The Committee discussed:

- Emergency works funding from NZTA
- Reasons for unspent capital project budgets
- Forecasting
- Level of detail in financial reports
 - Quarterly reports
 - Monthly exception reporting

COMMITTEE RESOLUTION 2018/47

Moved: His Worship the Mayor Craig Little

Seconded: Mr Philip Jones

That His Worship the Mayor will communicate with the NZTA Chair to try to identify why there has been a lack of response on the emergency funding provision from NZTA.

CARRIED

COMMITTEE RESOLUTION 2018/48

Moved: Cr Jeremy Harker

Seconded: Mr Philip Jones

That the Committee receive the report.

CARRIED

Closing karakia given by Cr Jeremy Harker.

The Meeting closed at 2.56 p.m.

The minutes of this meeting were confirmed at the Finance, Audit & Risk Committee Meeting held on 15 May 2018.

.....
CHAIRPERSON

8 GENERAL ITEMS

8.1 EXTERNAL AUDIT MANAGEMENT REPORT 2017

Author: Gary Borg, Chief Financial Officer

Authoriser: Steven May, Chief Executive Officer

Appendices: 1. FINAL REPORT TO MANAGEMENT WITH COMMENT [↓](#)

1. PURPOSE

- 1.1 This report provides information for Committee on the control findings from the audit of the Annual Report for the year ended 30 June 2017. No decisions are required by Committee at this stage.
- 1.2 Although the observations contained in the report are primarily for management to address, receipt of this information supports the Committee's fulfilment of its obligations under its Terms of Reference.



RECOMMENDATION

The Chief Financial Officer RECOMMENDS that Committee receive the report.

2. BACKGROUND

- 2.1 The audit management report is a standard component of the annual audit process. It provides observations and recommendations concerning Council's control environment and reporting processes, and contributes to continuous improvement and risk management.
- 2.2 The report to management for the year ended 30 June 2017 is attached as **Appendix 1**.
- 2.3 The number of recommendations has doubled to 16 from 8 in 2016. Of these 4 have been assigned a high risk ranking.
- 2.4 The following can be observed:
 - 2.4.1. A number of items arose from circumstances that were not present in the comparative year, such as the infrastructure asset revaluations and the recognition of subsidy revenue for emergency works.
 - 2.4.2. Several items are interrelated and therefore consequential, for example there are 3 connected items concerning accounting for infrastructure and several of the items impacted on the financial statement close process.
 - 2.4.3. Other items are continuing from previous periods but have been expanded or elevated. For example the quantum of non-financial performance measures is a perennial observation but has been elevated because Council has the opportunity to address this issue in its LTP 2018-28.
- 2.5 Nevertheless the observations of the auditor are vital to the development of Council's risk management and reporting capability.

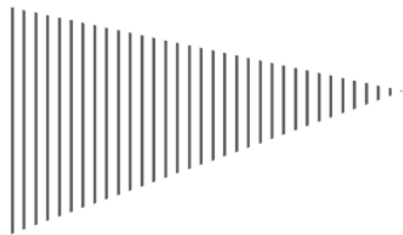
Signatories

	
Author Gary Borg	Approved by Steven May

WAIROA DISTRICT COUNCIL

Report on Control Findings

30 June 2017





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5 January 2018

Steven May
Chief Executive Officer
Wairoa District Council
PO Box 54
Wairoa 4160

Dear Steven

Report to Management: Year ended 30 June 2017

We have completed our audit of the financial statements and non-financial performance information of Wairoa District Council ("the District Council") and its controlled entity ("the Group") for the year ended 30 June 2017.

This management letter includes all control matters and issues arising from our audit findings that we consider appropriate for review by management.

In accordance with New Zealand Auditing Standards we performed a review of the design and operating effectiveness of District Council's significant financial and non-financial reporting processes. Our audit procedures do not address all internal control and accounting procedures and are based on selective tests of accounting records and supporting data. They have not been designed for the purposes of making detailed recommendations. As a result our procedures would not necessarily disclose all weaknesses in District Council's internal control environment.

We wish to express our appreciation for the courtesies and co-operation extended to our representatives during the course of their work, especially by Christopher Hankey. If you have any questions or comments, please do not hesitate to call me on (04) 470 0539 or contact me on stuart.mutch@nz.ey.com.

Yours faithfully

Stuart Mutch
Partner

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1. Overview

1.1 Overview of Risk Ranking System

To ensure consistency in reports to yourself we have aligned our rankings with those used in previous reports:

High Needs significant improvement	Immediate corrective action is required. These recommendations relate to a serious weakness which exposes the Council to a material extent in terms of achievement of corporate objectives, financial results or may otherwise impair the Council's reputation.
Moderate Needs substantial improvement	Corrective action is required, generally within 6 months. A control weakness, which can undermine the system of internal control and/or operational efficiency and should therefore be addressed.
Low Needs some improvement	Corrective action is required, generally within 6 to 12 months. A weakness which does not seriously detract from the system of internal control and/or operational effectiveness/efficiency but which should nevertheless be addressed by management.

1.2 Summary of Recommendations and Risk Rankings

As part of our audit of the financial statements and service performance information, we obtained an understanding of the internal controls sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of the internal controls we are required to communicate to you significant deficiencies in the internal controls. The matters reported below are limited to those deficiencies that we identified during the audit and that we concluded are of sufficient importance to merit being reported to you.

The following table provides an overview of the number of observations and the risk ratings we have identified:

	High Needs significant improvement	Moderate Needs substantial improvement	Low Needs some improvement
2.1.1 Financial statement close process	✓	-	-
2.1.2 Timeliness and integrity of Asset Valuations	✓	-	-
2.1.3 Non-financial performance reporting - Number of performance measures	✓	-	-
2.1.4 Accuracy and completeness of the NZTA Claims	✓	-	-
2.2.1 Legislative compliance monitoring	-	✓	-
2.2.2 Volume data of new infrastructure assets	-	✓	-
2.2.3 Depreciable elements of core infrastructure assets	-	✓	-
2.2.4 Bank Reconciliations Review	-	✓	-
2.2.5 Non-financial performance reporting	-	✓	-
2.2.6 Dates upon which Penalties are applied to Council rates	-	✓	-
2.3.1 Credit Card approval	-	-	✓
2.3.2 Expense claim receipts	-	-	✓
2.3.3 Revision to Landfill aftercare future nominal cash flows	-	-	✓
2.3.4 Review of final pay calculations	-	-	✓
2.3.5 GST on debtors and payables	-	-	✓

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	High Needs significant improvement	Moderate Needs substantial improvement	Low Needs some improvement
2.3.6 Tendering contract management	-	-	✓
Total	4	6	6

1.3 Disclaimer

Issues identified are only those found within the course of the audit for year ended 30 June 2017. Recommendations are intended solely for the use of management. We disclaim any assumption of responsibility for any reliance on this report, to any person other than the management or for any purpose other than that for which it was prepared.

2. Observations

2.1 High Risk Category Issues

2.1.1 Financial statement close process

Observation

Council has a statutory reporting deadline of 31 October for the adoption of its Annual Report. In 2015 Council was unable to complete its Annual Report prior to the statutory deadline, partially due to the workload associated with the Long Term Plan in 2015. In 2016 Council met the statutory deadline, but ran a very protracted process resulting in significant pressures at the end of October for Councils finance team and consequently on the audit team. This also has a direct flow on impact on the ability of Council to give appropriate consideration to the Annual Report and the overall integrity of the reported financial result. During the current financial year we have seen Councils management provide more detailed financial reporting to Council progressively through the year. However, we have found this has not improved the timeliness and effectiveness of the year end process. For instance Council's year end reporting objective was to complete its draft Annual Report prior to the beginning of our audit set down for 18 September 2017 and there was a reasonable and agreed expectation that the annual report would be complete, internally reviewed and available for audit. However, this targeted completion date was not achieved. Key matters that remained outstanding at the start of our year-end audit visit included:

- ▶ Receipt of final valuations and their inclusion in the financial statements;
- ▶ The allocation of overheads;
- ▶ The consolidation of QRS;
- ▶ The posting of Reserve movements;
- ▶ The capitalisation of capital work from project codes to the balance sheet; and
- ▶ The recognition of depreciation.

These, not insignificant, matters were progressively completed between 18 September and 13 October 2017. However, this provided limited opportunity for appropriate review, giving rise to an increased risk of errors, such as the shortfall in NZTA claims. This reduced the effectiveness of Councils ability to provide comment and our own ability to provide insights on the annual report to Councils audit committee.

We believe a key driver of this delay is that the fixed asset register and key general ledger accounts are not updated during the reporting period. As a result, all fixed asset additions, disposals, depreciation charges and revaluations are made at year-end. Making all adjustments to fixed asset general ledger accounts at year-end requires a significant level of effort for those in the finance team that could be better spread across the period. A key factor in the delay to the annual report was the belated completion of the infrastructural asset valuations. Given such a key matter as the revaluations were known to be occurring all year, we would not have expected the extent of the delays involved with this process. We acknowledge that the valuations were received in draft form in March 2017 but required substantial feedback to finalise between management and the valuers.

The late receipt of work papers and draft financial statements impacts the efficiency of the financial statement preparation and audit process and led to significantly more time being spent on the financial statements by both Council and EY staff. If these documents had been received when the team arrived onsite, particularly given the team arrived on the 18th of September,

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	nearly 3 months after balance date, efficiencies would have been gained by all parties. There remains a significant opportunity for continued improvement by Council.
Recommendation	Whilst we accept that financial and non-financial reporting is complex given the size and scale of the reporting teams maintained by many small to medium sized Councils we recommend that Council take this years' reporting process and examine where opportunities for further improvements are available. We would expect that the most significant gains can be achieved through the pro-active management of key one off matters such as revaluations, all segments of Council collectively working to develop the Statement of Service Performance and an increased focus being placed on the timely classification and capitalisation of capital projects. Consideration could be given to bringing key items forward within the financial statement close process. This could include obtaining valuations at an earlier date to allow for more extensive management consideration prior to year-end.
Management Response	<p>The financial year end 2017-18 is preceded by another LTP iteration, This has already compromised the finance team's capacity to produce monthly performance reports and it is realistic to anticipate that there will be some impact on the financial year close. Notwithstanding, it is intended that improvements will be achieved as follows:</p> <ul style="list-style-type: none"> • Capitalisations will be undertaken during the financial year. • Asset data will be maintained consistently on Council's asset management databases, with reconciliations performed between these and the fixed asset register. • A more coordinated approach between the responsible departments will be initiated for future valuations. • We are investigating the potential for overhead allocations and depreciation to be calculated during the year, including any necessary system modifications. <p>These measures will address most of the observations. We note that the culmination of the QRS audit overlaps with the beginning of Council's audit and expect that the consolidation will thus be completed in early October. While the above measures will reduce the number of tasks outstanding we would appreciate the support of EY in coordinating this element.</p>
Responsibility	Chief Financial Officer, Financial Planning Manager

2.1.2 Timeliness and integrity of Asset Valuations

Observation

Background:

Infrastructure assets represent the significant component of Council's balance sheet. As at 30 June 2017, Council engaged Opus International Consultants Limited to perform a revaluation of its core infrastructure assets including the valuation of land transport assets, water supply, waste water and storm water asset classes. The combined valuation resulted in the recognition of an uplift of \$10.2 million.

Timeliness and integrity of the underlying data:

- In previous Reports to management we have highlighted a number of issues and improvement points with Council's valuation process, namely the timeliness of the valuation for annual reporting and management due diligence on the external valuers' outputs. To mitigate this risk Council sought to change their valuer in 2017 and received initial drafts in March 2017. However, Council assessed they were not of an adequate standard for use. The reports were then severely delayed presenting the key element of the challenge around completing the financial statements in a timely manner. The Council's year end reporting objective was to complete the valuation reports prior to 18 September 2017 and there was a reasonable and agreed expectation that the valuation reports would be complete, internally reviewed and available for inclusion in the financial statements. However, whilst a draft land transport valuation report were made available in mid-September the three waters assets valuation was still being reviewed by the Engineering Manager and initial drafts were not provided until about a month after the September target date. We understand the delay can be partially attributed to Opus not delivering the required quality valuation on time, and that some results required the provision of feedback progressively through an extended process. Nevertheless, in situations where Council appoints an expert to provide significant technical advice, such as for a valuation, we do not expect Council management to be surprised by the results and the professional judgements made by the appointed expert. Council staff should remain close to the valuations so there are no surprises. The absence of appropriate and timely review of revaluation processes creates a risk that errors in the valuation reports are not spotted in a timely manner consequently causing a loss of valuation integrity and quality and significant delays to the annual reporting process. In addition the benefit of management's operational knowledge of the Council assets may not be reflected appropriately in the resultant valuation.
- We also note that management did not perform reconciliations between the infrastructure assets systems and the MagiQ fixed assets register (FAR) to assess the completeness of the valuation data. Opus' valuation is based on assets data stored and extracted from the Council's water (Asset Finda) and Roading (RAMM) asset management systems which holds assets data at component level including asset ID, location, descriptions, age and capitalisation dates. The asset management systems do not contain asset cost values and in essence is different and separate from the MagiQ Fixed Assets Register (FAR), which only records summarised asset data for accounting purposes. The asset management systems and the FAR currently do not inter-face and a regular reconciliation between the systems is currently not conducted. In the absence of a regular reconciliation between these systems, there is an increased risk of inconsistent data being held in each system i.e. additions, disposals and useful lives might be included in one system but not in the other in a timely manner (or at all) and any valuations carried out by external parties could be prepared on the basis of incomplete information. In addition, the financial statements in years during which no valuations are undertaken, may not accurately reflect the infrastructure assets network.
- We note that the valuer has largely assessed the confidence rating in asset data as "Reliable". This is consistent with most Councils in New Zealand. However, during the course of our review of the valuations we have noted a number of areas

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	where asset quantity or quality information has been classified as “Uncertain”. We recommend that management continue to develop its asset condition information so to enhance asset management.
Recommendation	<p>We recommend the valuation report be obtained with sufficient time available for WDC to review and to enable the correction of any identified errors ahead of the self-assessed deadline for the preparation of the financial statements. In addition, we recommend responsibility for obtaining and reviewing the valuation reports should be clearly defined. Management that are involved in the preparation of the annual financial statements should be actively involved in the valuation process and complete sufficient due diligence, in conjunction with asset management staff, to satisfy themselves that the information presented in the valuation report is appropriate for financial reporting purposes.</p> <p>A regular reconciliation should be conducted to ensure that the assets recorded in the FAR and the General ledger are consistent with those held within the Council's asset management systems. This helps to ensure data provided to the valuer is a full and complete record of the assets as at each balance date and that the FAR is accurate and complete in the intervening years.</p> <p>Finally, we understand Opus has made a number of improvement recommendations in the area of asset data and we believe Council should take action on these matters where it is economically viable to enhance Councils understanding of its asset base.</p>
Management Response	It is apparent that the valuation project was not comprehensively scoped with regards to completeness of asset data and reconciliation to the FAR. As noted above the latter will become a routine process while the terms of reference for future valuations will require sign off from the Engineering Manager and the Chief Financial Officer.
Responsibility	Engineering Manager, Chief Financial Officer, Financial Planning Manager, Asset Managers

2.1.3 Non-financial performance reporting – Number of performance measures	
Observation	<p>Our review of Councils service performance reporting within the Annual Report highlighted the significant volume of performance measures that Council has adopted as part of the Long-term Plan process. We acknowledge there are now a number of stipulated (legislated) performance measures against which all local authorities are required to report. In addition to these Council should have a manageable number of targeted measures that effectively describe the key activities of Council considering the key elements of service performance reporting being:</p> <ul style="list-style-type: none"> ▶ Location ▶ Cost ▶ Timeliness ▶ Quality ▶ Quantity <p>At present we believe Council has so many non-critical measures that it significantly detracts from Councils ability to effectively report against the key measures that Council and the public really measure performance against. The current volume of measures also diminish a reader's ability to focus on key information. Too much information is provided to the reader and significant measures "get lost" within measures focused on very small elements of Councils operations. An annual report should focus on material key messages. However, with over 200 measures, these messages cannot be identified by a reader.</p>
Recommendation	Council revisit and rationalise the volume and quality of performance measures as part of the next Long-term Plan. Where measures are notable to Councils operations, but not significant to a wide audience, these may wish to be retained, but only for internal reporting purposes, i.e. they should be removed from the LTP or Annual Plan and just used for internal management reporting.
Management Response	A review of performance measures is included in the preparation of the Long-term Plan 2018-28.
Responsibility	Chief Executive Officer, all activity managers

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2.1.4 Accuracy and completeness of the NZTA Claims	
Observation	<p>As part of our audit procedures we carried out an assessment of the reasonableness of NZTA income and its completeness in consideration of the level of costs incurred for the period. Our assessment noted the following issues:</p> <ul style="list-style-type: none"> ▶ A number of costs in areas, related to matters normally considered claimable, that had been excluded from claims recognised in the period to 30 June 2017; ▶ A significant drop in NZTA revenue, despite the movement in costs not being as significant; ▶ The netting off of certain elements of funding against costs; ▶ An unreasonable level of net operating costs within the Land Transport activity. <p>We provided our analysis to management, who were working on the same matter as a result of feedback from the audit committee. This investigation resulted in a further \$0.93 million of NZTA claims being made. We note that this error follows a financial reporting error in relation to NZTA claims identified in 2016. This represented a significant audit difference which has been amended in the financial statements.</p> <p>We believe this issue with NZTA claims clearly reflected that the challenging financial statement completion process had inhibited management ability to take the time to assess the reasonability of the financial results they had produced.</p>
Recommendation	<p>We recommend that significantly improved co-ordination occur between the finance and engineering groups in relation to NZTA claims and that staff "step back" and assess the overall reasonability of the financial performance of activities and revenue levels to provide confidence that revenue is being recorded in a complete manner.</p>
Management Response	<p>We concur that greater efficiency in the production of the draft financial statements would facilitate more comprehensive internal review and thus the presentation of more reliable information to both EY and the Finance, Audit & Risk Committee. However, this variance related to a claim for the recovery of emergency works that had not been approved by NZTA. The revenue was ultimately included by way of accrual in the financial statements. To date this claim and a subsequent claim for similar emergency expenditure has not been approved by NZTA, and the amount relating to the year ended 30 June 2017 was later included in a claim for regular roadworks at the normal Funding Assistance Rate, in order to provide some cash inflow to Council. The matter has been escalated with NZTA.</p>
Responsibility	<p>Engineering Manager, Chief Financial Officer, Transport Asset Manager, Financial Planning Manager</p>

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2.2 Moderate Risk Category Issues

2.2.1 Legislative compliance monitoring	
Observation	<p>The Council has no formal legislative compliance monitoring process in place.</p> <p>We have noted historically that Council have pro-actively sought advice from Simpson Grierson on Rates related matters, but there is no formal mechanism for identifying relevant legislative matters arising in other areas of Councils operations.</p> <p>Due to the constantly changing legislative environment in which the Council operates, there is a risk that without a formal legislative compliance monitoring process, the Council may unknowingly breach significant legislative requirements.</p>
Recommendation	<p>We recommend that Council develops and implements a process for identifying and monitoring significant legislative requirements. A number of Local Authorities have developed suitable programmes and we recommend Wairoa District Council use its network to benefit from others investment in this regard. Alternatively SOLGM guidance is often a useful reference point.</p>
Management Response	<p>Council is currently investigating how to implement a more formal legislative compliance monitoring process. This has also been reviewed as part of our recent Internal Audit process.</p>
Responsibility	<p>Governance Advisor and Policy Advisor, subject to Internal Audit programme</p>
2.2.2 Volume data of new infrastructure assets	
Observation	<p>During the course of our review of the waste water valuation prepared by Opus we noted that a decrease in waste water treatment assets reflected a decrease in the value of the Mahia scheme compared to its construction cost.</p> <p>We note that the valuers have reflected that quantity data in regards to this asset has not been put into Councils asset database causing some concern in relation to the quality of the asset data.</p> <p>It is critical that the core volume information of new infrastructural asset developments are recorded within the Councils various fixed asset registers / databases in a timely manner. Without such information Council may maintain inaccurate valuation information, or face an inability to assess the appropriate depreciation charges for such assets.</p>
Recommendation	<p>The asset databases maintained by Council be updated to reflect the final, as built, Mahia scheme. Where other infrastructure assets are built, renewed or replaced, these amendments should be reflected in Council's asset databases in a timely manner.</p>
Management Response	<p>The as built data produced by the contractor for the scheme has delayed the process.</p>
Responsibility	<p>Engineering Manager</p>

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2.2.3 Depreciable elements of core infrastructure assets	
Observation	<p>We considered the integrity of the depreciation charged on the various classes of infrastructure assets. The depreciation rates reflected in valuations have been appropriately reflected in the fixed assets register. However, we note that Council have chosen not to depreciate certain elements of paved and unpaved roads which have been included in the roading valuation as depreciable.</p> <p>This may put at risk the accuracy of Councils depreciation charge which is expected to provide an appropriate assessment of the utilisation of service potential by Council and the community.</p>
Recommendation	We recommend that Council re-assess this treatment going forward. Whilst Council may determine it will not rate for these charges, if the asset valuer, as Councils expert, recommends that it is depreciable, in line with sector norms, then Council should give it due consideration. If there are differences between how Wairoa DC operates as compared to other Councils this should be documented clearly, discussed with Councils valuer and agreed as appropriate by all parties.
Management Response	These are items that Council has previously undertaken to not depreciate. This will be reviewed and in the absence of a justifiable reason otherwise, depreciation will be charged hence.
Responsibility	Financial Planning Manager, Chief Financial Officer
2.2.4 Bank Reconciliation Review	
Observation	<p>Bank reconciliations from December 2016 onwards have been prepared but not reviewed.</p> <p>Whilst the reconciliations were prepared and all reconciling items were clearing on a timely manner, the absence of timely review of the reconciliations creates a risk of reconciling items not being cleared in a timely manner or building up to an unacceptable level, unauthorised or inappropriate expenditure occurring, and misappropriation of funds.</p>
Recommendation	We recommend reconciliations for all bank accounts are reviewed on a timely basis.
Management Response	Bank reconciliations are now prepared and reviewed daily by the CFO, which has multiple components, including active cash management and daily updating of the core financial system transactions. Regular ongoing reviews of suspense items held within separate GL codes allows control over and review and clearing of these items. A formal review and signoff of the end of month position will be included with an intended and previously operated full GL Reconciliation of the balance sheet.
Responsibility	Financial Planning Manager, IT Operations Officer, Chief Financial Officer.

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2.2.5 Non-financial performance reporting	
Observation	<p>When performing work on the Council's non-financial performance reporting measures, we identified a number instances where the data or documentation used to support particular measures did not appear to be appropriately robust and readily available for our review. Examples included:</p> <ul style="list-style-type: none"> ▶ A significant number of results with no information other than the word "Achieved", where further information was required to allow the user to understand the result, ▶ Results that were not answered at all, ▶ Performance results that did not make logical sense, ▶ In most cases, the information is maintained on spreadsheets dispersed across the council without a central collection, ▶ There were no formal mechanisms designed to ensure the integrity of reported results once the data has been obtained and reported. ▶ Performance targets differed between LTP and Annual Plan objectives and often only one of the two measures was reported against. <p>These issues significantly diminish the effectiveness of Councils reporting.</p>
Recommendation	<p>We recommend Council streamline its systems, processes and quality control over KPI reporting necessary to ensure actual performance is captured, recorded and reported appropriately. Systems should be developed across Council that report performance measures against predefined SSP's that have clear definitions on a regular basis for inclusion within the monthly and quarterly reporting regime to establish the SSP process as usual business of the Council instead of reporting it as a compliance exercise at year end.</p>
Management Response	<p>We concur that the number of measures is excessive and many are not relevant. This is under review as part of the LTP process. We agree also that reporting through the year will improve quality control and performance effectiveness, although capacity for 2017-18 is compromised by the LTP preparation.</p>
Responsibility	<p>Financial Planning Manager, Chief Financial Officer, all activity managers</p>

2.2.6 Dates upon which Penalties are applied to Council rates	
Observation	<p>For the purposes of the 2017/18 rates resolution Council have taken specific steps to provide more detailed information in relation to the date upon which penalties will be charged against rates that have been assessed as overdue. This has included specific consideration of water charges following recent feedback across the sector where Councils have been challenged in this area.</p> <p>We note that whilst Council has taken this positive step within its formal documentation this level of detail has not been included in the rating information maintained on Councils website, which is likely to be a key area of focus to ratepayers wishing to understand their obligations for paying rates in a timely manner.</p>
Recommendation	Councils website be updated to provide consistent information to that adopted by Council.
Management Response	Due dates for rates payable by instalment are displayed on the Wairoa District Council website. Due dates for metered water supply will now also be displayed on the Wairoa District Council website.
Responsibility	Senior Rates Officer

2.3 Low Risk Category Issues

2.3.1 Credit Card approval

Observation	<p>Council policy is that all credit card statements must be reviewed and approved by appropriately delegated approvers prior to payments. While testing a sample of credit card statements, we noted three August 2016 statements were not approved for payment. In addition, we noted the CEO did not have a designated credit card and all his expenses were charged through his personal assistant's credit card which is subsequently approved by himself. This process immediately removed any real segregation of duties and is not good practice.</p> <p>If credit card purchases are not reviewed and approved prior to payment by an authorised independent person, there is a risk that the financial costs of items of a sensitive nature or personal expenses are borne by the Council.</p>
Recommendation	We recommend that Council ensures that its internal policy for reviewing of credit card statement is adhered to and that "one up" procedures are applied. This should include the Mayor or Chair of the Audit Committee reviewing the CEO's credit card usage on a regular basis.
Management Response	Procedures updated and policy followed, sensitive expenditure policy introduced.
Responsibility	Chief Executive Officer

2.3.2 Expense claim receipts

Observation	<p>During our review of staff expense claims we noted an instance whereby a receipt of a credit card expenditure was not attached to the statement to support the details of the transactions undertaken. In addition, there was a lack of business purpose description included in the documentation supporting the expense.</p> <p>Without adequate supporting documentation and specific detail in relation to the business purpose of the expenditure, management are not in a position to review and assess the appropriateness of expenditure incurred.</p>
Recommendation	All receipts or invoices are maintained to support expenditure incurred. In addition the purpose of any staff expense claim or credit card expenditure should be documented clearly.
Management Response	We regards this as an exception. Normal practice is as described in the recommendation and will continue.
Responsibility	Chief Executive Officer, Chief Financial Officer

2.3.3 Revision to Landfill Aftercare future nominal cash flows	
Observation	During our review of the Landfill aftercare provision, we noted a revision to the estimated nominal future cash flows was not undertaken in line with accounting standard requirements. Without a regular assessment of the expected nominal future cash flows, there is a potential risk for an incorrect provision being recognised in the financial statements.
Recommendation	Given the inherent risks in estimating the nominal future cash flows of the landfill after-care costs, Council should seek to have these estimates reviewed on an annual basis in line with the requirements of the accounting standards. Council should also consider any revision to the nominal cash flows are peer reviewed at least every three years or more regularly if required.
Management Response	A review of the Landfill calculation was undertaken by the Property Manager and the 2016/17 Annual Report calculation was considered appropriate. Finance staff relied heavily on the Audit Team during this process, to confirm appropriateness and accuracy of the calculations. Additional Reviews of the assumptions will be requested of the Property Manager in the 2017/18 Annual Report process.
Responsibility	Property Manager, Financial Planning Manager, Chief Financial Officer.

2.3.4 Review of final pay calculations	
Observation	During our audit procedures, we noted there was no evidence of a review of final pay calculations for three terminated employees. The absence of a review of the final pay calculations for terminated employees increases the risk of error due to an incorrect final pay calculation. Due to the manual nature of the calculation this also increases the risk of fraud or error occurring.
Recommendation	Final pay calculations should be reviewed by a member of the payroll team, or Council management who is independent of the preparer prior to the final payment being made.
Management Response	Calculations of final pays have been undertaken during the period under review by Napier Payroll staff and separately by Wairoa staff, with a review of the separate calculations having taken place to confirm reasonableness of both calculations. With payroll functions returning to Wairoa, Finance will look to establish a process for review and signoff of any final pay prior to this being processed within any pay run.
Responsibility	Chief Financial Officer, Financial Planning Manager.

2.3.5 GST on debtors and payables	
Observation	During our audit procedures, we noted instances whereby certain debtors and payables with appropriate GST invoices have been recorded exclusive of GST. This is contrary to the GST rules which require GST to be recognised on an invoice or payment basis (WDC use the invoice basis). Consequently there is a risk that WDC claimed the GST pertaining to these invoices in the wrong period or not at all.
Recommendation	We recommend that GST on debtors and payables be recognised at the GST invoice date in line with the GST rules.
Management Response	<p>Some costs are collected on an agency basis and passed to the agency, for example the Building Research Levies component of a resource consent. The treatment of both of the sides of the transaction are the same so there is nil impact on GST.</p> <p>A number of suppliers of "goods sold on behalf" sold through the iSite are not registered for GST. Payments to these suppliers do not have GST added to them for an input claim to be able to be made. BCTI invoices are to be issued by the iSite team into the future.</p> <p>Residential rented properties are expensed at the GST inclusive value, as we believe that we are not property developers we do not believe that we are able to make an input tax claim on these costs. Cost Centres HS and HP refer.</p> <p>Delays in processing of invoices can mean that invoices in question are provided too late to be processed in the month that they are dated, and all beyond the timeframe where they can be posted into the same period as the date of the invoice. We continue to seek methods of improving the turnaround time for invoices to accurately record them in the appropriate period. We note the removal of internal billing for water and IBU charges, which resulted in significant delays in netting of GST invoices and the corresponding expenditure claim.</p> <p>We continue to monitor all invoices each month to ensure that all costs are appropriately claimed or returned as part of the monthly GST claims, and that invoices that have GST included in the calculation meet the requirements of being a GST Tax Invoice.</p>
Responsibility	Financial Planning Manager
2.3.6 Tendering contracts management	
Observation	<p>During our testing of the controls surrounding the contract tendering process we noted an instance whereby work on a tendered contract (Tuai Township) has started without the signed agreement in place.</p> <p>The absence of an executed agreement can result in potential disagreements and legal challenges for the Council.</p>
Recommendation	We recommend all contracts are signed before work commences.
Management Response	This can form part of a SOP.
Responsibility	Engineering Manager

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8.2 ANNUAL REPORT 2017-18 TIMETABLE AND AUDIT PLAN

Author: Gary Borg, Chief Financial Officer
Authoriser: Steven May, Chief Executive Officer
Appendices: 1. Annual Report Timetable [↓](#)
2. Audit Plan [↓](#)

1. PURPOSE

- 1.1 To present to the Committee the proposed timetable for the preparation and audit of the Annual Report for the year ending 30 June 2018.

RECOMMENDATION

The Chief Financial Officer RECOMMENDS that the Committee receives the proposed timetable and audit plan for the Annual Report 2017-18.

2. BACKGROUND

- 2.1 This matter is presented to the Committee in support of its obligations under its Terms of Reference to monitor Council's audit programme and oversee the compilation of the Annual Report.
- 2.2 Although no decisions are required from the Committee, it has a critical role in ensuring that effective oversight is applied to the integrity and timeliness of the process and the information contained in the final Annual Report that is recommended for adoption by Council.

3. CURRENT SITUATION

- 3.1 The proposed timetable is attached as **Appendix 1**. The schedule identifies key milestones and target dates for completion, audit and adoption of the Annual Report. It is dependent on all areas of Council's operations providing the required information within the indicated timeframes. More detailed task lists will be employed as part of the project plan.
- 3.2 The audit plan has been prepared by Council's external auditor and is attached as **Appendix 2**. This sets out the auditor's responsibilities to Council and its approach to the audit, quality assurance and risk management.

4. RISK MANAGEMENT

- 4.1 The strategic risks (e.g. publicity/public perception, adverse effect on community, timeframes, health and safety, financial/security of funding, political, legal – refer to S10 and S11A of LGA 2002, others) identified in the implementation of the recommendations made are as follows:
- a. The risks identified pertain to legislative compliance and Council's reputation, arising from the potential failure to adopt an Annual Report within the statutory timeframes.



- b. In recent years Council has consistently achieved this requirement, but this has not been without challenge. As illustrated by the timetable, and the auditor's report to management on the Annual Report 2017 that is also contained in this agenda, the construction of an annual report is an extensive complex project involving numerous interdependent tasks.
- c. The risks identified above will be mitigated through effective project management.

Confirmation of statutory compliance

In accordance with section 76 of the Local Government Act 2002, this report is approved as:

- a. containing sufficient information about the options and their benefits and costs, bearing in mind the significance of the decisions; and,
- b. is based on adequate knowledge about, and adequate consideration of, the views and preferences of affected and interested parties bearing in mind the significance of the decision.

Signatories

	
Author Gary Borg	Approved by Steven May









Annual Report Timetable 2017/18

Action	Target Completion Date
Prepare Templates for Statements of Service Performances and Financial Statements (including comparatives)	08 June
Interim Audit	22 June
Regular Year-End Adjustments <ul style="list-style-type: none"> - Investment Adjustments - Debtors – Aging of Rating Debtors and Provision for Doubtful Debts - Stocks on Hand - Payroll - Grants 	13 July
Creditors <ul style="list-style-type: none"> - Non Contractual Creditors <ul style="list-style-type: none"> o Processed Invoices ex GL o non processed invoices - Contractual - other Items (Prepayments) Debtors – Non invoiced Creditors including NZTA Claim 12 – Check for Wash-up	31 July
Ledgers closed	03 August
Compilation of Service Performance Reports	10 August
Capital Adjustments (Additions/Deletions/Depreciation & Valuation allocations) and Accruals	17 August
Overhead Allocations, Reserve Interest and Special Reserve funds	24 August
Notes, Funding Impact Statements, Financial Prudence Benchmarks	31 August
Draft Financial Statements Council only	07 September
Audit	17 September – 5 October
Presentation of Council only draft to Finance Audit & Risk Committee	18 September
Consolidation of CCO financial statements	02 October
Report finalisation and Audit Opinion	12 October
Presentation to Finance Audit & Risk Committee, with Audit Partner	23 October
Presentation of audited reports to Council for adoption	30 October

Wairoa District Council

Audit Plan for the year ending 30 June 2018



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Dear Members of the Finance, Audit & Risk Committee ("the Committee")

We are pleased to present our Audit Plan ("Plan") for the audit of the financial statements and service performance information of Wairoa District Council ("the Council") for the year ending 30 June 2018. This Plan outlines the scope of our services, identifies Ernst & Young ("EY") professionals that will serve you and presents our understanding of some key considerations that will affect the 30 June 2018 audit.

Our audit is designed to express an audit opinion on the 30 June 2018 full year financial statements and service performance information. Our Plan has been prepared based on our understanding of the Council's business and operating environment. We have considered, and will continue to consider the Council's current and emerging business risks, assess those that could materially affect the financial statements information and align our procedures accordingly. The Plan will be responsive to your needs and will maximise audit effectiveness so we can deliver the high quality audit you expect.

Our commitment to quality will be reflected in every aspect of our work. If you have any questions or comments, please contact me on 04 470 0539. I look forward to discussing our Plan with you at the Finance, Audit & Risk Committee meeting on 15 May 2018.

Yours faithfully


Stuart Mutch
Partner

2 | 30 June 2018 Audit Plan - Wairoa District Council



Executive summary

Risk assessment and areas of audit focus

As part of our risk assessment process we have met with management to understand the key changes in Councils operations and adapted our audit approach accordingly. Our key focus areas have been summarised below and explained in detail on pages 5 - 10. They remain broadly consistent with those set out in 2017. However, they are also reflective of changes occurring in the District:

- ▶ Accounting for infrastructure assets;
- ▶ Integrity of rates setting, rates invoicing and collection giving consideration of the legislative compliance obligations of rates;
- ▶ Recognition of New Zealand Transport Authority (NZTA) Claims and Subsidies;
- ▶ Debt facilities;
- ▶ Completeness and effectiveness of the Council's Non-financial performance reporting;
- ▶ Financial statement close process
- ▶ The Council's legislative compliance;
- ▶ Core controls over operating expenditure, procurement and tendering;
- ▶ Employee Entitlements and other provisions;
- ▶ The audit and consolidation of Quality Rooding Services (QRS); and
- ▶ Sector specific areas of focus

Additional risks may emerge over the course of time as current facts and circumstances change. These risks will be factored into our reporting to you and the design of our audit procedures.

Audit approach

We note the audit approach remains broadly the same as that set out for 2017. We seek to test your controls in the key financial statement processes and therefore expect to take a controls based approach wherever possible. Details of our controls based approach is outlined in detail on page 13. The nature and extent of our controls testing is dependent on and considers whether the IT general controls environment is operating effectively. There continues to be a substantive approach taken in relation to Rates setting and collection, the financial statement close process, other Income (fees and charges & NZTA Funding), accruals and debt facilities.

Materiality

Our audit is planned to obtain reasonable assurance of detecting misstatements that we believe could be, individually or in aggregate, material to the financial statements.

Our materiality threshold has been set at \$503,000 being 2% of forecasted expenditure as set out in Councils 2017/18 Annual Plan. We will continue to report to the Finance, Audit & Risk Committee errors impacting Council's surplus /deficit by more than \$25,000.

Tolerances will be set individually for each significant performance measure.

Your EY team

Stuart Mutch will continue to lead the EY audit team. Stuart will be assisted by Ahmed Sofe as Senior Manager of the engagement.

The core of our 2017 audit team will return to carry out the audit in 2018 as we understand the importance of maintaining a strong understanding of the organisation.

Independence

We remain in compliance with the NZICA Code of Ethics and the Professional and Ethical Standard 1: *Code of Ethics for Assurance Practitioners'* independence requirements and OAG's regulations relating to Auditor Independence, and in our professional judgment, the engagement team and the Firm are independent. We have the appropriate controls in place to ensure we remain independent throughout the audit.

Engagement execution and reporting

We continue to regularly engage with the finance team and management as part of our audit planning and execution. We have set out on page 22 a summary of our communication and deliverables throughout the audit.

Audit fee

In accordance with the letter of undertaking dated 26 June 2017, our agreed fees for the 2018 Audit are:

\$	FY18 actual
Audit fees and disbursements	87,518
OAG overhead contribution	6,250
Total audit fees	93,768



Risk assessment and areas of audit focus

Areas of audit focus

		Areas of audit focus	Our perspective	Work to be performed
Areas of Focus		Accounting for infrastructure assets	<ul style="list-style-type: none">Infrastructure assets dominate Wairoa District Council's balance sheet. The total carrying value of the infrastructure assets at 30 June 2017 was \$237m.Infrastructure assets are held at fair value less accumulated depreciation and are revalued on a systematic basis in line with Councils accounting policy. Water related Infrastructure assets and Roading assets were last revalued at 30 June 2017. There are no planned valuations for the 30 June 2018 unless there is an expectation of there being a material movement in the value of the assets.There is a heavy reliance on the integrity of the asset remaining useful life information, as this information forms the basis of valuations and the accuracy of depreciation rates.The integrity of the classification of maintenance and/or capital expenditure is critical given the nature and useful life of work carried out. This is particularly relevant to expenditure incurred on roading and pipeline assets.A number of significant weather events have impacted the District during the course of the 2017/18 year, exposing Council to the risk of infrastructure damage.Council has continued to investigate the condition of its assets for the purpose of planning future infrastructure renewal and maintenance work. This work may also reflect where asset useful lives may require re-assessment.	<ul style="list-style-type: none">We will review and test the year end reconciliation and roll forward of the Fixed Assets Register to the general ledger, including additions, disposals and depreciation.We will review the assumptions underlying the historical valuations against current asset management plans to ensure that they are still appropriate.We will assess management's assessment as to whether there is any risk of the fair value of infrastructure assets moving materially and consequently a valuation being required. The key elements of this are whether new information has come to hand in relation to the condition or replacement costs of assets.We will obtain assurance in relation to the appropriateness of Work in progress (WIP) cut-off at balance date and confirm that the carrying value of WIP is supportable in relation to both its valuation and that the nature of cost incurred is in line with PBE IPSAS 17.Review of capitalised costs and maintenance expenditure to obtain assurance over the accuracy of cost classification.We will review other significant additions and disposals of assets during the year.We will review significant asset impairments and management's assessment for indicators of impairment.We will review the appropriateness of depreciation recognised against the estimated useful life in the Council's latest valuation and other supporting information.Assess capital projects for their impact upon capital commitments and other related disclosures.

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Areas of Focus	Areas of audit focus	Our perspective	Work to be performed
	Integrity of rates setting, rates invoicing and collection and the consideration of legislative compliance of rating	<ul style="list-style-type: none"> ▶ Rates income levied represents the Council's primary revenue source. There is specific legislation in place which must be adhered to for the rates set to be legal. In the local authority context, failure to comply with rating law and the associated consultation requirements can create significant risks to the integrity of rates revenue. ▶ The requirement for there to be consistency between the rates resolution, the Funding Impact Statement for that year, and the Revenue and Financing Policy in the LTP is fundamental because this is the thread that links community consultation to the rates levied by Council forming the core of the Council's revenue. ▶ The accuracy of a rates setting is dependent on the integrity of the rates database. The reliability of the rates billing system should also ensure rates are billed appropriately. Council incorrectly estimated the scale of rates increases when initially setting the 2017/18 rates. Following the identification of these errors Council re-set its rates for the financial year. ▶ Recent legal challenges against certain local authorities have identified a range of issues relating to the legislative compliance, and therefore legality of rates sought. ▶ Certain rate paying groups present rates collection risk. ▶ Council has had a long running water rates dispute with a key local employer who is a high volume user of water. 	<ul style="list-style-type: none"> ▶ We will review the Council's procedures for ensuring the rates set is in compliance with the Local Government Rating Act and test that the rates set are being applied appropriately to the rating database and invoiced accordingly. ▶ We will test the accuracy of the use of underlying valuation information (as prepared by Quotable Value) within the rating database and its applications to the rates that were set. ▶ We will assess the re-setting of the rates by Council for the period and how this re-set has been applied to rates debtors and reflected within Council's annual reporting. ▶ We will review the nature and form of the rates resolution and the invoicing of rates in terms of risks that may impact the financial statements. ▶ We will test the integrity of the rates debtor management system. ▶ We will review any provision for doubtful rates debtors to consider whether it is appropriate in the circumstances. ▶ We will assess the appropriateness of any judgemental determinations made in relation to any disputes over rate charges in consideration of correspondence and any other relevant documentation. ▶ We will undertake specific procedures to assess the implementation of any retrospective agreements reached in relation to water rates and assess the level of provisioning required in relation to year end receivable positions.
	Recognition of New Zealand Transport Authority (NZTA) Claims and Subsidies	<ul style="list-style-type: none"> ▶ Transport projects and maintenance undertaken by Council are eligible to receive funding from NZTA. Every three years, Council agrees the Roothing work programme with NZTA. In order for roading work to be eligible for NZTA funding, it must be competitively tendered. ▶ Financial reporting standards require NZTA subsidies to be recognised as revenue, while a portion of the associated expenditure is capitalised by the Council as part of the roading assets. ▶ There is a risk that Council will claim costs that are ineligible according to the funding requirements, thereby overstating the claim accrual and the corresponding revenue at year end. ▶ During 2016/17 audit we noted an amount of \$0.93m in NZTA funding not recognised as revenue due to funding for emergency works that had not received formal approval. 	<ul style="list-style-type: none"> ▶ We will review the claim process and controls system (approvals, checking and reconciliations) utilised by the Council to support claims made to NZTA and obtain assurance that roading work is competitively tendered. ▶ We will review a sample of NZTA funding received during the financial year to test that it has been appropriately recorded in the financial statements and that the funding is generated by expenditure in line with NZTA approved budgets. ▶ We will assess the year end accrual for NZTA revenue to obtain assurance that the amount recognised for claims made post 30 June 2018 related to the 2018 financial year. ▶ We will carry out an assessment of the reasonability of NZTA income and its completeness in consideration of the level of costs incurred for the period and the agreed NZTA budget.
	Debt facilities	<ul style="list-style-type: none"> ▶ Debt levels change with the timing of planned capital projects and repayment timelines ▶ Wairoa District Council had entered into a \$5m five year loan with Westpac Bank. This loan has an associated debenture trust deed which places future rates as security against the debt. The Debenture trust deed includes clauses which require the auditor of the Council to report to the Trustee over the accuracy of the reporting certificates. 	<ul style="list-style-type: none"> ▶ We will obtain an understanding of debt facility agreements maintained in the year and review the relevant debt facility agreements including the process for managing drawdowns. ▶ We will obtain third party confirmation of outstanding debt positions at year end. ▶ We will consider the term or current classification of the debt. ▶ Review disclosures associated with the debt positions held. ▶ Verify that debt held is in line with the policies set down in Council's Long Term Plan.

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	Areas of audit focus	Our perspective	Work to be performed
Areas of Focus			<ul style="list-style-type: none"> Assess whether Council is in compliance with reporting requirements and debt covenants. Complete the debenture trust deed required procedures and reporting.
	Completeness and effectiveness of the Council's Non-financial performance reporting	<ul style="list-style-type: none"> The Council is required to report its performance against levels of service expectations and performance measures included in the Long Term Plan (LTP). These measures are key to the Council providing a "performance story" to the community. Our audit opinion on the service performance report covers compliance with generally accepted accounting practice, and whether or not the service performance report fairly reflects the Council's actual service performance for the period. During 2017/18 there has been a significant focus on Councils compliance with waste water outflows. The integrity of reporting in this area will be critical. There is a risk of inadequate reporting systems to monitor performance and hence the potential failure to adequately report the provision of core services to the public. We have selected the following activities as significant in the context of our audit of the 2017/18 annual report. However, we will consider the entire Annual Report as part of our feedback to management. <ul style="list-style-type: none"> Water Supply; Wastewater; Waste Management; and Land Transport. 	<ul style="list-style-type: none"> We will update our understanding of key performance reporting processes and review the collation methodologies applied by the Council. We will examine, on a sample basis, the Statement of Service Performance to determine that the measures have been reported on and outputs have been achieved where stipulated. We will assess completeness and adequacy of performance monitoring procedures. Assess the completeness and effectiveness of the performance framework utilised including at an Outcome level. Provide feedback on the overall annual report and the summary annual report. As part of the audit of the 2018-28 LTP, we will consider the approach taken by Council to address the recommendations we have raised in the past in relation to improvements that can be made on the performance measures. In particular reducing the number of performance measures to effectively manageable numbers.
	Financial Statement Close Process	<ul style="list-style-type: none"> Council has a statutory reporting deadline of 31 October for the adoption of its annual report. Whilst Council has met the statutory deadline in the past two years, it has run a very protracted process resulting in significant pressures at the end of October for the Council team. This also has a direct flow on impact on the ability of Council to give appropriate consideration to the Annual Report. In 2017 we have seen Council's management provide more detailed financial reporting to Council progressively through the year. However, we have found this has not improved the timeliness and effectiveness of the year end process. 	<ul style="list-style-type: none"> We accept that financial and non-financial reporting is complex given the size and scale of the reporting teams maintained by many small to medium sized Councils. However, we feel that given Council is aware of its statutory reporting deadline there should be a process to mitigate the recurring delays involved historically. We will continue to work with management to support any initiatives they seek to adopt this year to improve Councils financial statement close process.
	The Council's legislative compliance	<ul style="list-style-type: none"> The Council operates in a highly legislated sector. It is important from an audit perspective that we are made aware of any instances of non-compliance. Key areas of legislation from an audit perspective include: <ul style="list-style-type: none"> Local Government Act 2002; The Local Government Financial Reporting and Prudence Regulations 2014; 	<ul style="list-style-type: none"> We will consider the extent to which the Council maintains systems and procedures to monitor and manage its own legislative compliance; We will review both the processes the Council has in place to ensure compliance with relevant legislation, and the actual compliance with or breaches of legislation; We will review and test that the Council has complied with legislative requirements that directly affect the form, content and preparation of the financial statements,

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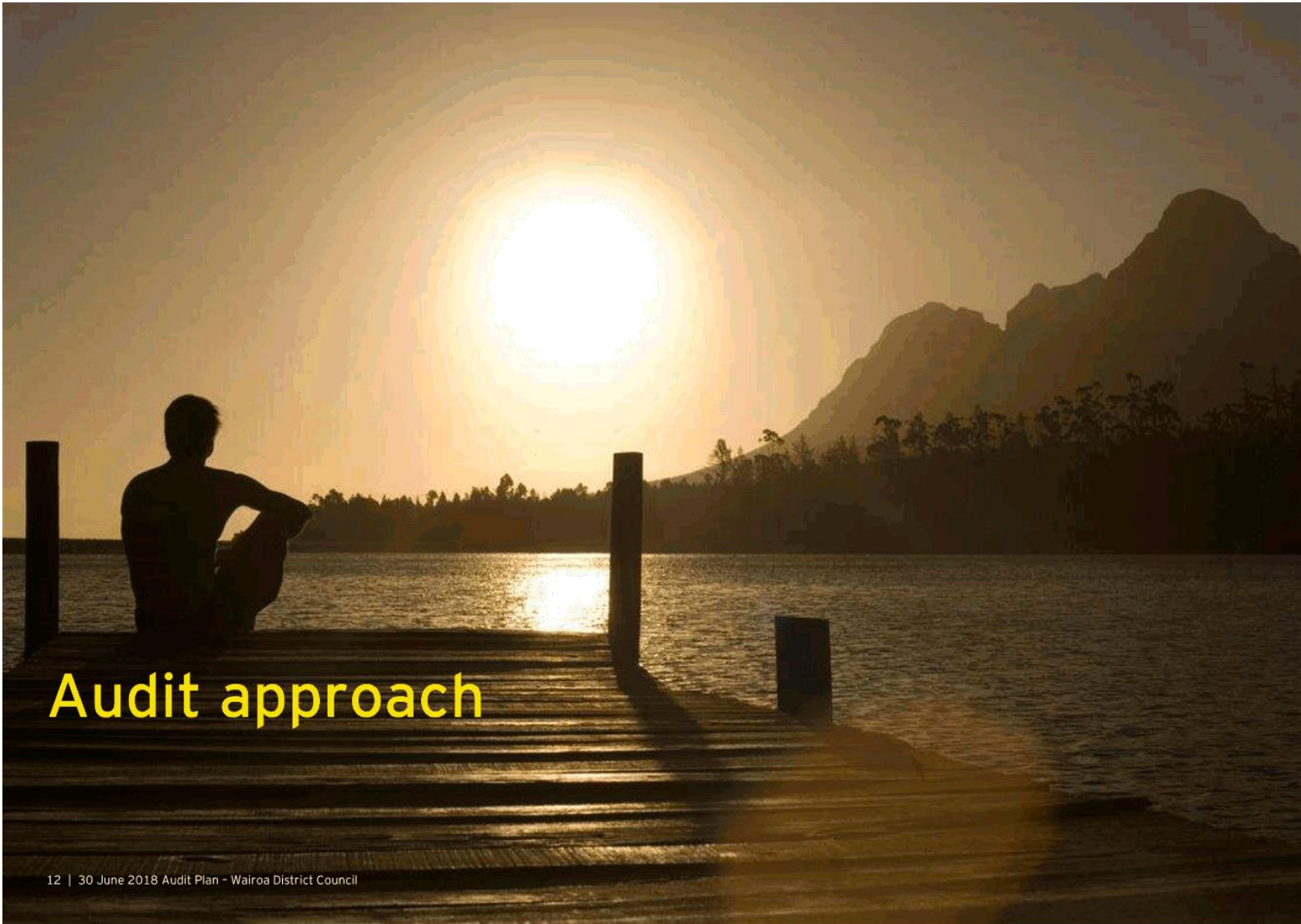
Areas of audit focus	Our perspective	Work to be performed
	<ul style="list-style-type: none"> ▶ Local Government Official Information and Meetings Act 1987; ▶ Local Government (Rating) Act 2002; ▶ Building Act 2004; and ▶ Resource Management Act 1991. 	annual report and those that could have a fundamental effect on the entity's operations.
Core controls over operating expenditure, procurement and tendering	<ul style="list-style-type: none"> ▶ Council incurs significant operating costs across a range of operational activities. ▶ Appropriateness of Councillor and management expenditure is an area of interest to ratepayers. ▶ The Council's Capital works procurement programme involves significant cash flows. ▶ Areas of expenditure such as travel, accommodation, training and catering can present opportunities for personal benefit or waste in the eyes of the public. 	<ul style="list-style-type: none"> ▶ We will review the incurrence and approval of operational expenditure. ▶ We will review the use of credit cards and obtain assurance that expenditure has been incurred for a reasonable purpose. ▶ We will review the application of procurement policies. ▶ We will review areas of potential sensitivity for appropriateness. ▶ Obtain assurance that appropriate processes and controls are in place. ▶ We are aware that key contracts are currently under review. We will establish an understanding of how key procurement processes are undertaken.
Employee Entitlements and other provisions	<ul style="list-style-type: none"> ▶ Employee entitlements could be misstated or incorrect entitlements paid. ▶ Payroll systems may not appropriately record employee expenses in the general ledger. ▶ Local authorities are required to disclose information about employee costs, pay rate levels and severance payments in the annual report. ▶ Council is required to hold a landfill aftercare provision in line with PBE IPSAS 19. ▶ Assumptions used in the calculation could be subject to significant fluctuation. 	<ul style="list-style-type: none"> ▶ We will undertake control testing over the payroll processes and controls utilised by management, including controls around the integrity of reporting. ▶ We will assess the accuracy of recognised employee entitlements at year end and verify their recognition and measurement to contractual entitlements. ▶ We will carry out detailed analytical procedures to validate that payroll cost movements have been in line with expectations. ▶ Through the examination of significant one-off payments to employees we will review if any severance payments are made throughout the year along with the disclosure of these payments. ▶ For the landfill aftercare provision, we will: <ul style="list-style-type: none"> ▶ Review the adequacy of future costs based on recent Council cost experience. ▶ Test the assumptions (discount rates, cash flow forecasts) and test discounting of values associated with the landfill. ▶ Obtain assurance that the disclosures in the financial statements are appropriate.

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Areas of Focus	Areas of audit focus	Our perspective	Work to be performed
	The audit and consolidation of Quality Roding Services (QRS)	<ul style="list-style-type: none"> QRS operate in a competitive environment. Whilst it is heavily dependent on Council funded work it carries out a range of commercial work and is exposed to a range of commercial risks, including: <ul style="list-style-type: none"> Reputation/Litigation/Disputes Debt covenants Asset planning & management Cost to complete estimates Metal stock valuation risk Employee entitlement risk During the current financial year QRS has undertaken significant restructuring to align its operating model with its key areas of focus with the intention of generating cost savings and more efficient work practices. QRS has entered into a significant contract to repair elements of State Highway 2 for NZTA. This represents a key multi-year contract that will generate significant revenue recognition risk. The consolidation of QRS into the Council's group financial statements is an important element of the financial statement close process. 	<ul style="list-style-type: none"> On a sample basis we will test revenue and WIP items to assess whether they have been recorded in the correct period and have been accounted for correctly. We will attend the year end stock take to obtain assurance that the quantity of metal stock is accurately recorded. We will also ensure inventory is valued at the lower of cost and net realisable value in line with NZ IAS 2. We will obtain assurance that the liability recognised for employee entitlements is fairly stated and that assumptions used in calculating the present value of the long service leave obligation are reasonable. We will review the status of any litigation and other disputes and ensure provisions/contingent liabilities are appropriately recognised, if applicable. QRS has access to current debt facilities with both ANZ and UDC finance. We will review the debt facilities and any covenant reporting. Property Plant and Equipment (PPE) are carried at cost less accumulated depreciation. We will review any significant asset impairments and management's assessment for indicators of impairment. QRS recognise a deferred tax asset (DTA). In order to recognise a DTA it must be probable that sufficient taxable profit will be available in future periods to utilise the DTA. We will review the deferred tax calculation and management's assessment that the DTA is recoverable. We will also obtain assurance of the appropriate recognition in the financial statements. QRS financial statements are prepared under NZ IFRS RDR. Effectively for annual periods beginning on or after 1 January 2018 (comparatives required from 1 January 2017) a new revenue accounting standard (NZ IFRS 15 <i>Revenue from Contracts with Customers</i>) will apply. NZ IFRS 15 introduces a new model for the recognition, measurement and disclosure of revenue. We acknowledge that management are in the process of assessing the impact of the new standard. This assessment will form the basis for developing an approach to the implementation of the new standard. We will continue to work with QRS management to review the impact of the new standard. We will review the approach adopted to consolidate QRS into the Council's group financial statements.
	Sector specific areas of focus	<ul style="list-style-type: none"> The OAG each year outlines certain areas of focus to be considered during the audit process. This year areas with relevance to our audit of the Council include: <ul style="list-style-type: none"> Asset Management Fraud risks Compliance with rating laws Compliance with laws and regulations Non-financial performance measures Elected members remuneration and allowances Disclosure of severance payments Sensitive expenditure Financial Reporting and Prudence Regulations 	<ul style="list-style-type: none"> We will perform the following procedures to address these issues: <ul style="list-style-type: none"> Obtain an understanding of the quality of asset management practices. Review management's policies and procedures surrounding fraud detection and prevention. Hold discussions with management and other business/accounting process owners. Remain alert to fraud indicators throughout the performance of our audit procedures including the completion of our controls testing surrounding the expenditure and payroll process. We will also carry out analytical review procedures to obtain assurance that movements in key account balances are reasonable and in line with our expectations. Review policies and procedures surrounding legislative compliance including the compliance with rating laws. We will hold discussions with management in relation to risk management in this area. Review the adequacy of disclosures in the annual report relating to severance payments and elected members remuneration and allowances.

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Areas of audit focus	Our perspective	Work to be performed
		<ul style="list-style-type: none">▶ Review the Council's policies and procedures to monitor and understand the interests of new and existing elected members', especially if they might involve contracts with the Council.▶ We will review the procurement process as part of our understanding of the key financial processes. We will review the contracts register and a sample of contracts to ensure the register is being appropriately maintained and contracts are being approved in accordance with the assigned authorisation limits. We will review a sample of larger/sensitive procurements including the declaration of any interests by the elected members and members of management and their appropriate approvals.▶ We will specifically audit each prudence benchmark and ensure there is consistency of reporting against planned measures and the financial information underlying the financial statements.



Audit approach

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Audit approach

An effective audit approach

Our audit is primarily designed to enable us to express an opinion on the fair presentation of Council’s financial statements and service performance information. For further details on our global audit methodology refer to Appendix A. The specific terms and scope of the external audit engagement are set out in our engagement letter for the years ended 30 June 2017, 30 June 2018 and 30 June 2019, dated 31 March 2017.

Opinions to be issued

Full Year Audit of Financial Statements & Service Performance Information

Our audit will be conducted to provide reasonable assurance as to whether the financial statements and statement of service performance of the Council for the year ending 30 June 2018 are free of material misstatement.

Trustee reporting

As a consequence of Council’s Trust Deed under which it raises debt, we have an obligation to provide a report to management and the Trustee upon the completion of our audit.

Internal control environment

In accordance with the Auditor General’s auditing standards, we will perform a review of the design and operating effectiveness of the Council’s significant financial recording and reporting processes.

We will ensure that any significant deficiencies that come to our attention during the course of our audit are communicated to the Committee and management in a timely manner. We will revisit our 2017 control findings during our audit to ensure that management’s responses have been implemented during the year as agreed.

We have set out to the right a table which summarises the level of controls reliance we expect to achieve in the key financial statements processes.

IT General Controls

In prior years, we have not taken an Information Technology General Controls (ITGCs) reliance approach on Council’s general ledger application “MagiQ”. Based on our discussions with management and a preliminary review of your IT environment, we will update our understanding and reconsider our conclusions during the year. We provide a

summary report on IT control findings to management during our audit process and this usually includes points on how the controls for these systems could be improved.

Approach to key financial statement processes

Process	Controls reliance
Financial statement close	
Infrastructure Assets	
Rates setting and collections	
Purchases and payables	
Cash receipts and payments	
Payroll	
Other Income (Fees and Charges & NZTA funding)	
Non-financial performance information reporting	
Debt Facilities	

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Risk of fraud

The primary responsibility for the prevention and detection of fraud and error rests with those charged with the governance and management of the Council. The Council has an active programme for the prevention and detection of fraud.

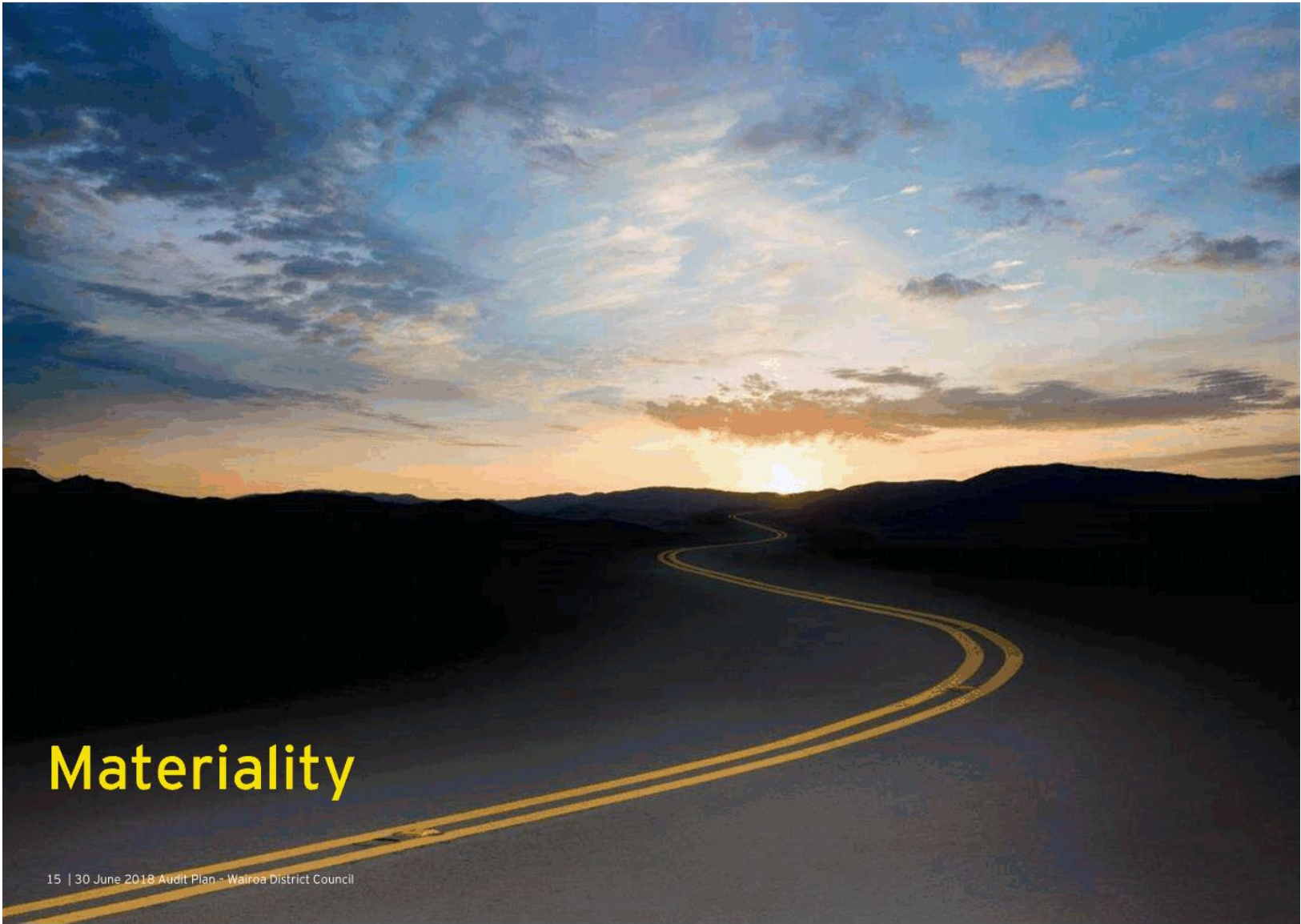
Our responsibility as the external auditor is to consider the risk of fraud and the factors that are associated with it so as to provide reasonable assurance that the financial statements and service performance information are free from material misstatement resulting from fraud. Professional standards require us to perform certain procedures designed to address the risks of fraud, including the risk of management override. However, it is important to note that while our external audit work is not primarily directed towards the detection of fraud or other irregularities, we will report any matters identified during the course of our work.

We evaluate the risk of management override and consider the actions management has taken to respond to those risks. We have set out to the right our approach to fraud risks within our audit process.

We will inform the the Finance, Audit & Risk Committee and management should we become aware of any actual or suspected instances of fraud as a result of our audit.

Approach to fraud risks

Identifying and evaluating controls implemented by management to address fraud, including those in respect of related party transactions
Tests of operating effectiveness of identified fraud controls
Reviewing processes in place designed to ensure that transactions are appropriately approved and recorded in the accounting records of the Council
One on one discussions with key business and accounting process owners
Substantive audit of manual journals including use of data analytic techniques to identify any significant unusual journals
Audit and challenge of judgemental areas with sufficient level of professional skepticism and involvement of senior team members



Materiality

We design our audit procedures to obtain reasonable assurance that errors in the financial statements are not material individually or in aggregate. Errors are considered to be material if, individually or in aggregate, they could reasonably be expected to influence readers’ overall understanding of the financial statements and non-financial performance information in making decisions or assessments about the stewardship and allocation of resources and the performance of the entity. Our materiality is set at \$503,000 but we will report identified errors in excess of \$25,000. Materiality for the statement of service performance is determined based on the determined criteria and audit assessment rating in accordance with the OAG auditing standard AG-4 (revised) “The audit of service performance reports.” Significant performance measures will be assessed based on a materiality of 3%. Issues identified in other measures will be assessed using a threshold of 5%.

Materiality is used to determine the nature and extent of our audit procedures. PBE IPSAS 1 Presentation of Financial Statements states that omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements.

Our planning materiality for the 30 June 2018 full year audit is based upon 2% of forecasted expenditure of \$25.2m. Our materiality levels are set out in the table below:

Detail	2018 Audit Estimate	2017 Audit Actual
Expenditure	\$25,169,000	\$24,087,000
Planning materiality ~2 %	\$503,000	\$482,000
Threshold for reporting audit and review differences	\$25,000	\$24,000

As a matter of course, all identified audit and review differences in excess of \$25,000 will be brought to the attention of management for further consideration and action as appropriate. We will communicate to you any of these audit differences that are not adjusted by management, as well as significant corrected misstatements.

We will regularly review the level of materiality throughout the engagement and where a change is necessary we will advise the Committee accordingly.



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Your EY team

Your audit team for 2018 provides continuity and fresh ideas. This helps to ensure that we build on previous experience and make the audit process as smooth as possible.

Your EY team

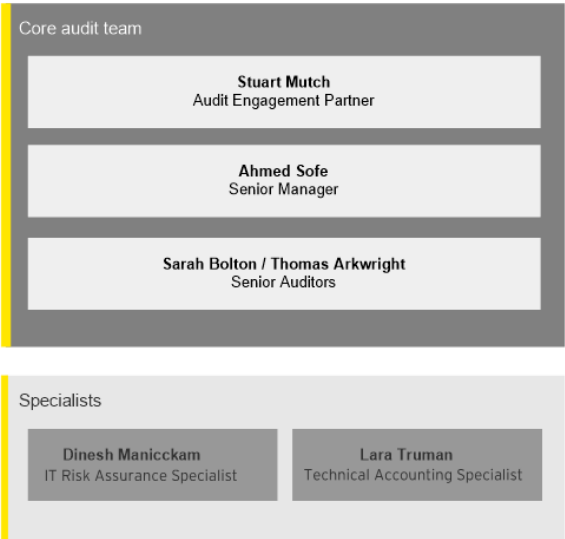
We understand that our team is the most important element of your relationship with us. We have effectively balanced the ongoing continuity of our core team with the input of innovation and fresh insights.

Key members of our team have been involved in the audit of the Council for a number of years. This stability provides the Council with continuity, historical knowledge of your business and industry expertise. These combined factors enable us to focus on the significant issues facing your business. In addition, we have incorporated experts from our IT systems and Financial Accounting Advisory team to assist us in addressing the financial risks facing the Council.

We will also utilise our information technology specialists where appropriate based on our assessed audit approach.

Our executive team will continue to be Stuart Mutch and Ahmed Sofe as audit engagement partner and senior manager.

We have maintained strong continuity at the staff level, while also bringing on some new talent.





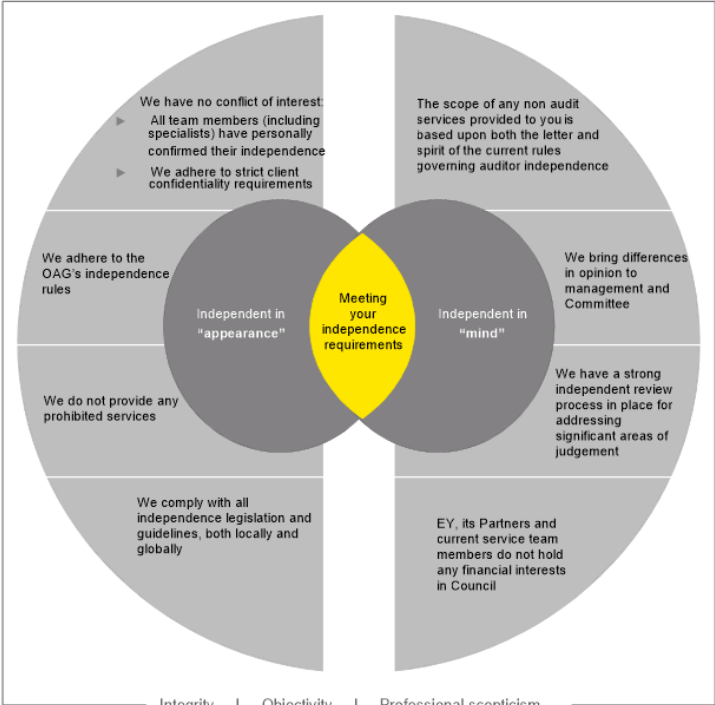
Independence

We are committed to being and being seen to be independent. There are no matters that, in our professional judgement, bear on our independence which need to be disclosed to the Committee.

We understand the importance of independence to you. We have been rigorous in maintaining our independence and managing conflicts. We will remain independent, and be seen to be independent. We have always respected your expectation of Audit Independence, and have not sought to compromise you in any way by advocating positions that were not clearly permitted under normal expectations, or may have led to a perception of or actual conflict.

Independence is fundamental to EY as our ongoing reputation and success is connected to our ability to meet both the Council's and broader regulatory independence requirements.

Accordingly, we ensure that there are controls in place and actions taken on a regular basis that mitigate any risks to our independence.



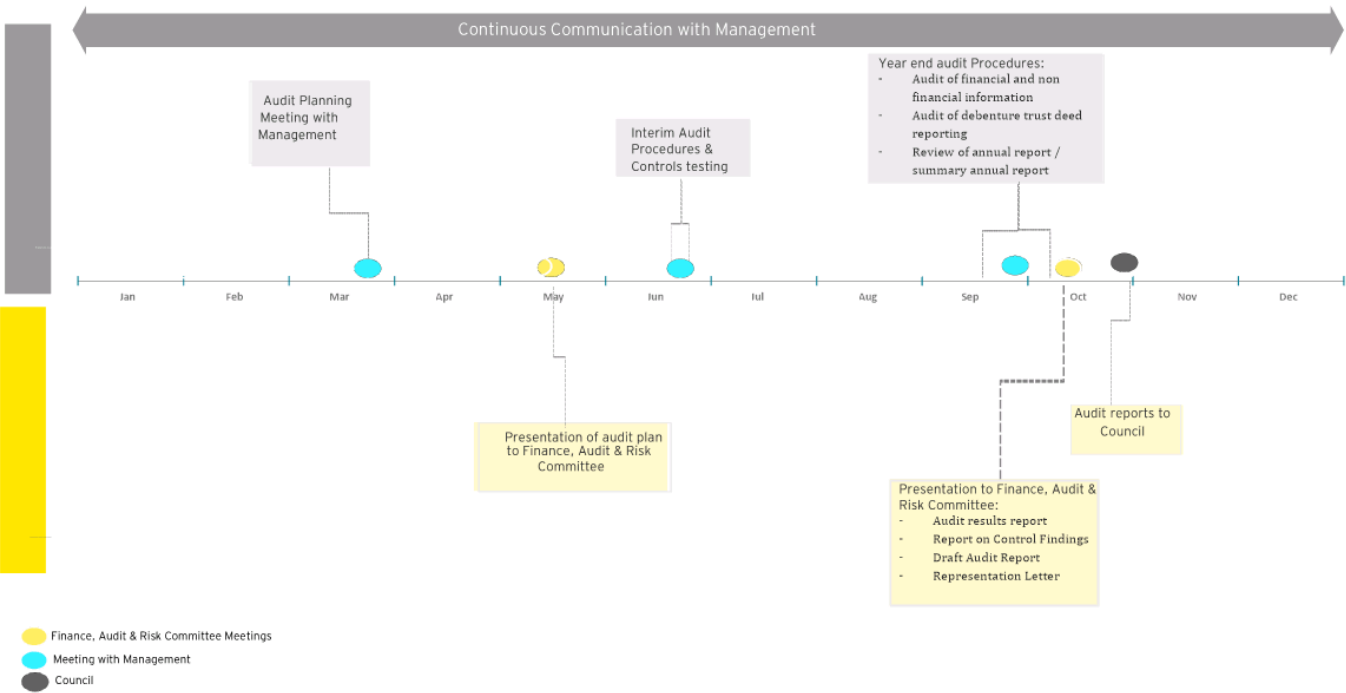


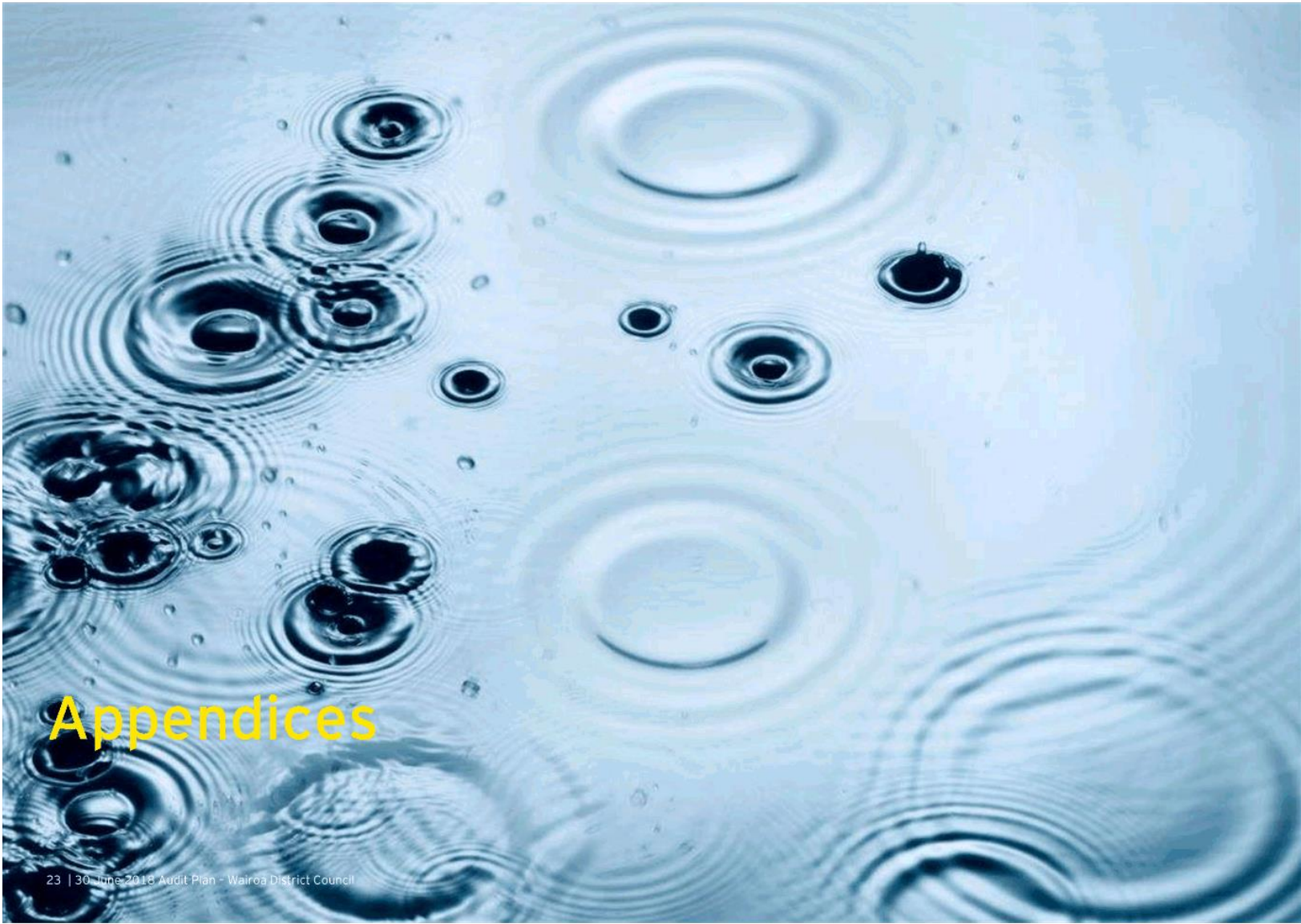
Engagement, execution and reporting

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Engagement execution and reporting

We recognise that regular, timely communication with Management and the Committee is critical to maintaining an effective and transparent relationship. Our audit process operates throughout the year so that we can respond to issues as they arise and maintain close communication, with Management and the Committee, as the audit cycle progresses.





Appendices

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Appendix A - Effective audit approach

Our global audit methodology is designed to ensure audit quality is maintained on the Council's audit. Our audit of the Council will be in 4 key stages:

- ▶ Updating our understanding of Council and its risks;
- ▶ Designing our audit work to ensure that it is focused on the areas where the risk of material misstatement is highest, after considering our understanding of Council's entity level controls;
- ▶ Testing the design and operating effectiveness of key controls (including IT controls) and executing our substantive audit procedures;
- ▶ Completing an overall review of the financial statements including an assessment of audit differences and internal control deficiencies and issuing our audit report and related management letter.

Throughout the above process we will be committed to providing fair and transparent fees, industry focus, relevant insight, effective technical interaction and continuous communication.



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Appendix B - Communication with those charged with governance

Matter	Required Communication	Reference
Terms of engagement	<ul style="list-style-type: none"> ▶ Council confirmed the acceptance of our terms of engagement within the engagement letter for three year ends dated 31 March 2017. 	Engagement letter
Planning and audit approach	<ul style="list-style-type: none"> ▶ Communication of the planned scope and timing of the audit including any limitations 	This Report
Significant audit findings	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Audit Closing Report
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant 	Audit Closing Report
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	To be discussed with the Committee
Related parties	<ul style="list-style-type: none"> ▶ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <ul style="list-style-type: none"> ▶ Non-disclosure by management; ▶ Inappropriate authorisation and approval of transactions; ▶ Disagreement over disclosures; ▶ Non-compliance with laws and regulations; and ▶ Difficulty in identifying the party that ultimately controls the entity. 	To be discussed with the Committee

Appendix B - Communication with those charged with governance

Matter	Required Communication	Reference
External communications	<ul style="list-style-type: none">▶ Management's refusal for us to request confirmations▶ Inability to obtain relevant and reliable audit evidence from other procedures	To be discussed with the Committee
Consideration of laws and regulations	<ul style="list-style-type: none">▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional▶ Enquiry of the Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements of which the Committee may be aware	To be discussed with the Committee
Going concern	<ul style="list-style-type: none">▶ Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:<ul style="list-style-type: none">▶ Whether the events or conditions constitute a material uncertainty;▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and▶ The adequacy of related disclosures in the financial statements.	Audit Closing Report
Control findings	<ul style="list-style-type: none">▶ Significant deficiencies in internal controls identified during the audit	Management Letter

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