



Rangitikei District Council

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Rangitikei
UNSPOILT...

Audit/Risk Committee Meeting

Order Paper

**Friday 3 June 2016,
9.30 am**

**Council Chamber, Rangitikei District Council
46 High Street, Marton**

Website: www.rangitikei.govt.nz

Email: info@rangitikei.govt.nz

Chair

Mr Craig O'Connell

Deputy Chair

Membership

His Worship the Mayor, Andy Watson and Councillors Nigel Belsham, Dean McManaway,
and Lynne Sheridan

Please Note: Items in this agenda may be subject to amendments or withdrawal at the meeting. It is recommended therefore that items not be reported upon until after adoption by the Council. Reporters who do not attend the meeting are requested to seek confirmation of the agenda material or proceedings of the meeting from the Chief Executive prior to any media reports being filed.

Rangitikei District Council

Audit/Risk Committee Meeting

Order Paper – Friday 3 June 2016 – 9:30 a.m.

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The quorum for the Audit/Risk Committee is 3.

At its meeting of 28 October 2010, Council resolved that “The quorum at any meeting of a standing committee or sub-committee of the Council (including Te Roopu Ahi Kaa, the Community Committees, the Reserve Management Committees and the Rural Water Supply Management Sub-committees) is that required for a meeting of the local authority in SO 2.4.3 and 3.4.3.

1 Council Prayer

2 Welcome

3 Apologies/Leave of Absence

4 Confirmation of order of business

That, taking into account the explanation provided why the item is not on the meeting agenda and why the discussion of the item cannot be delayed until a subsequent meeting, be dealt with as a late item at this meeting.

5 Confirmation of minutes

Recommendation

That the Minutes of the Audit/Risk committee meeting held on 22 February 2016 be taken as read and verified as an accurate and correct record of the meeting.

6 Auditor-General's report to Parliament: Local government: results of 2014/15 audits

<http://www.oag.govt.nz/2016/local-govt>

This report was presented to Parliament in April 2016. A memorandum is attached outlining issues raised in the report which are relevant to Rangitikei.

File: 5-EX-2-5

Recommendation

That the memorandum 'Local government: Results of the 2014/15 audits – concerns relevant to Rangitikei District Council' be received.

7 Risk management and insurances

A presentation is attached

File: 5-FM-6

Recommendations

That the report 'Risk management and insurances' be received.

8 Considerations for project management

A presentation will be made at the meeting.

9 Audit arrangements – 2016

The draft arrangements letter for the 2015/16 audit is attached for consideration by the Committee

5-EX-2-3

Recommendation

That the Audit/Risk Committee

EITHER sees no issue in the Mayor signing the final version of the proposed audit arrangements letter for 2016 [without amendment/as amended]

OR requests that further consideration be given to the following matters and a revised draft of the audit arrangement letter for 2016 be provided to the Mayor for approval.

10 Proposed changes to the Local Government (Rating) Act 2002 regarding certain categories of Māori land

At its last meeting, the Committee asked to be informed about the implications of the proposed changes to the Local Government (Rating) Act 2002, which the Minister for Māori development foreshadowed in an announcement on 11 February 2016.

These changes are in Schedule 1AA (part 16) of the Te Ture Whenua Māori Bill (attached), which was introduced into Parliament on 14 April 2016, had its first reading on 11 May 2016 and was referred to the Māori Affairs Committee. Submissions are due on 23 June 2016 (and the Committee's report is due with Parliament on 11 November 2016).

Clause 490 of this Bill amends Schedule 1 of the Local Government (Rating) Act 2002 (categories of non rateable land) by including land not exceeding 2 ha used for a cemetery, crematorium or burial ground/urupa and land used for a marae (and related areas). Clause 494 allows (but does not require) a council to adopt a policy on unused Māori freehold land and on write-offs of earlier rates. This is to be done by adding a new section 110A to the Local Government Act 2002. Clause 495 inserts a new Schedule 11A to that Act, setting out the matters which must be considered in demining such a policy.

The draft Bill will be considered by the Policy/Planning Committee and Te Roopu Ahi Kaa at their meetings on 9 June 2016 and 14 June 2016 respectively. Apart from the rating issues, the Council's main interest is in the provisions (in clause 319) regarding landlocked land. However, Te Roopu Ahi Kaa is likely to have a broader view on the Bill.

11 Internal Audit – programme update

Arrangements have yet to be finalised over the appointment of an Internal Auditor.

12 Late items

13 Future items for the agenda

14 Next meeting

15 Meeting closed

Attachment 1

Rangitikei District Council

Audit/Risk Committee Meeting

Minutes – Monday 22 February 2016 – 2:00 p.m.

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| 10 | Late items | 5 |
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| 13 | Meeting closed | 5 |

At its meeting of 28 October 2010, Council resolved that "The quorum at any meeting of a standing committee or sub-committee of the Council (including Te Roopu Ahi Kaa, the Community Committees, the Reserve Management Committees and the Rural Water Supply Management Sub-committees) is that required for a meeting of the local authority in SO 2.4.3 and 3.4.3. The quorum for the Audit/Risk Committee is 3.

Present: Mr Craig O'Connell (Chair)
His Worship the Mayor, Andy Watson
Cr Nigel Belsham
Cr Lynne Sheridan

In attendance: Mr Ross McNeil, Chief Executive
Mr Michael Hodder, Community & Regulatory Services Group Manager
Mr George McIrvine, Finance & Business Support Group Manager
Mr Hamish Waugh, Infrastructure Group Manager
Mrs Debbie Perera, Associate Director, Audit New Zealand
Ms Carol Downs, Executive Officer

Unconfirmed

1 Council Prayer

Chairman Craig O'Connell read the Council prayer.

2 Welcome

Mr O'Connell welcomed the Committee members and Council staff.

3 Apologies/Leave of Absence

Apologies were received from Cr Dean McManaway, and for lateness, from Mr Ross McNeil.

4 Confirmation of order of business

The Committee agreed with the Chair's request to have item 6 - Investigation into the establishment of an infrastructure services Council – Controlled organisation delayed until the Chief Executive, Mr McNeil arrived at the meeting.

5 Confirmation of minutes

| | | |
|------------------------|------------|----------|
| Resolved minute number | 16/ARK/017 | File Ref |
|------------------------|------------|----------|

That the Minutes of the Audit/Risk committee meeting held on 7 December 2015 be taken as read and verified as an accurate and correct record of the meeting.

Cr Belsham / Cr Sheridan. Carried

7 Audit management report for 2014/15 – progress update on outstanding issues

Mr McIlrvine provided a verbal update on the outstanding issues from the 2014/15 audit management report, in particular:

- IT backup systems – a system provided by Spark is being looked at, this would back up all Council's systems each night and be stored off-side on a "cloud" type system
- June floods – there are some outstanding issues from the floods which are expected to be resolved during the remainder of the year

Mr McNeil arrived at 2.35pm

| | | |
|------------------------|------------|----------|
| Resolved minute number | 16/ARK/018 | File Ref |
|------------------------|------------|----------|

That the verbal update be received.

Cr Belsham / Cr Sheridan. Carried

8 Risk management framework: Proposed actions to address areas of unacceptable risk

A schedule of the actions proposed were provided to the Committee, showing the risk assessment agreed in December 2015. Additions were made to the table, including:

- 1.6 – add potential Property Brokers deal in Marton.
- 2.1 – it was noted that Councillors were going to be provided with a weekly report on Request for Services (RFS) received.
- In discussing the funding for the Bulls multi-purpose facility, the Committee considered an appropriate trigger level to be recommended to Council for discussion, this was agreed as a 70% threshold.

Resolved minute number **16/ARK/019** **File Ref 5-CP**

1. That the schedule of proposed actions to address areas of unacceptable risk be received.
2. That the proposed actions (as amended) to address areas of unacceptable risk in the Council's risk management framework be approved

AND

That the Audit/Risk Committee be provided with a report to its August 2016 meeting on the proposed actions to address unacceptable risk showing the current assessment of risk (including control effectiveness ratings) attached to those particular activities

Cr Belsham / Mayor Watson - Carried

AND

That the Audit/Risk Committee recommends that Council discusses, at the March Council meeting, a 70% threshold – for securing local funding and 70% for external funding for the Bulls multi-purpose facility.

Mayor Watson / Cr Belsham Carried

9 Internal Audit – programme update

The Committee noted and discussed the documents provided in the agenda. During discussion it was agreed that if there was a delay in the appointment of an internal auditor the relevant Councils (RDC, MDC HDC and Horizons) may need to consider appointing an external consultant.

Resolved minute number **16/ARK/020** **File Ref 5-EX-2-6**

That the documents for 'Internal Audit – programme update' be received.

Cr Belsham / Cr Sheridan. Carried

6 Investigation into the establishment of an infrastructure services Council-Controlled organisation

Mr O'Connell introduced this item and tabled a document that summarised the Office of the Auditor-General guidance on the establishment and management/governance of a CCO.

The Committee agreed to develop this document further, which will be initially discussed at management level and then presented to Council for their consideration. The document will look at the issues, risks and the impact of any decision on the establishment of a CCO. A suggested format was a table style outlining relevant questions, actions and identifying any risks if the CCO did not go ahead.

10 Late items

No late items were requested.

11 Future items for the agenda

One item was identified for a future agenda:

- Implications from the proposed changes to the Rating Act on rating of Maori land.

12 Next meeting

To be determined and advised to members.

13 Meeting closed

The meeting closed at 3.50pm.

Confirmed / Chair: _____

Date: _____

Attachment 2

Memorandum

To: Audit/Risk Committee

From: Michael Hodder

Date: 26 May 2016

Subject: **Local government: Results of the 2014/15 audits – concerns relevant to Rangitikei District Council**

File: 5-EX-2-5

This report, presented to Parliament in April 2016, raises five areas of concern which have relevance for Rangitikei.

1 Capital expenditure compared with budgets

- 1.1 In 2014/15 local authorities (excluding Auckland) spent only 62% of the budgeted capital expenditure, a decrease of 3% from 2013/14. By contrast revenue and operating expenditure both increased.
- 1.2 For all local authorities,
- spending to meet additional demand was 66% of budget;
 - spending to improve levels of service averaged 91% of budget
 - spending to renew or replace existing assets was 71% of budget
- 1.3 The OAG considers that these results give reasonable assurance about the continuity of service, but the lower levels of spending for the two other categories raises doubt on the accuracy of budgets and highlights the risk (if such under-investment continues) that service levels might not be maintained in the future.

2 Capital expenditure compared with depreciation

- 2.1 Where capital expenditure (including depreciation) is less than depreciation, it implies that there is insufficient investment to pay for the upkeep of existing infrastructure. Where the reverse applies (i.e. capital expenditure is higher than depreciation) it may be because the assets are not depreciated or because there are significant new projects being undertaken.
- 2.2 Comparing capital expenditure for renewals or replacements (as opposed to all capital expenditure) with depreciation showed 13 local authorities with renewals which were 40% or less than depreciation.

- 2.3 The OAG considers that depreciation rates need regular review as knowledge of asset condition improves.¹

3 Debt

- 3.1 Excluding Auckland Council, the proportion of rates used for rates used to meet financing costs averaged 14% in 2014/15. Financing debt was nearly 35% of Auckland Council's rates revenue in 2014/15.
- 3.2 The OAG considers financing costs which exceed 15% of rates revenue reduces a local authority's ability to respond to unexpected events by borrowing. LGFA sets a limit of 30% on net interest to rates revenue for externally-credit rated local authorities and 25% for unrated authorities.
- 3.3 The OAG expects internal borrowing to be clearly documented (including interest charged and attributed), to not reduce a funding buffer for unexpected events and (preferably) to be included as part of a local authority's prudential borrowing limits, in addition to the external borrowing limits.

4 Conflicts of interest

- 4.1 In Queenstown Lakes District Council, the chief executive had a conflict of interest in a proposal for land owned by his family to become a special housing area. While disclosed to the Council and the OAG, that conflict of interest was seen as affecting the chief executive's ability to fulfil his core role as adviser to the council and provide leadership to staff.
- 4.2 In Ashburton District Council, one elected member owned land next to the area designated for the construction of a second bridge and two other elected members had family members owing property in that designated area. The OAG was satisfied that the effect on property value was not high enough to consider there was a financial interest. Nonetheless, each member needed to consider whether to participate in the Council's decision-making for this project.

5 Local body elections

- 5.1 The OAG reiterates the importance of ensuring that local authorities remain politically neutral, that sitting candidates do not gain an unfair advantage over non-sitting candidates, and that ratepayer funds are not used to promote electioneering.
- 5.2 The OAG considers the pre-election report, being outside the political process should make a positive contribution to this year's election debate.

¹ In auditing the 2015/25 long-term plans of local authorities, the report notes that the proportion of renewal expenditure to depreciation varied but that this did not necessarily indicate that renewal or replacement expenditure would be inadequate: "It may be that the depreciation rates established for accounting purposes do not accurately reflect actual consumption of the assets or that the assets are in a phase of their (long) life cycles where renewal and replacement does not yet need to be considered" (p.26)

- 5.3 The OAG stresses the importance of providing governance training to newly elected members (noting the workshops which will be available through Local Government New Zealand) and comments on the usefulness of including an audit committee in the post-election governance structure of a local authority.

Recommendation

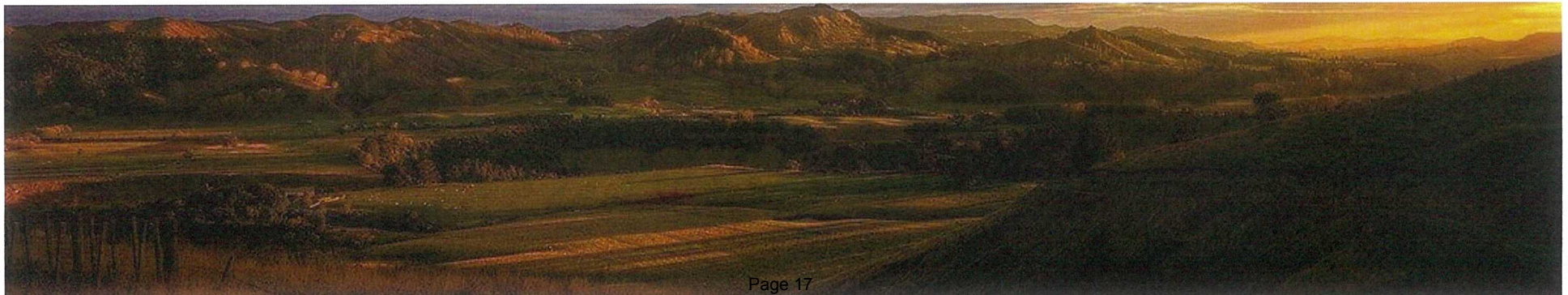
That the memorandum 'Local government: Results of the 2014/15 audits – concerns relevant to Rangitikei District Council' be received.

Michael Hodder
Community & Regulatory Services Group Manager

Attachment 3

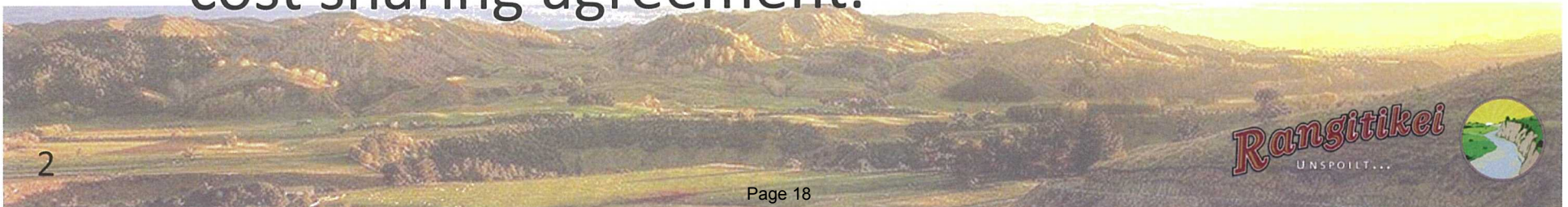


Risk management and insurances



Background for Change key aspects

- As council is aware there is change from central government with formation of Local Government Risk Agency (LGRA).
- As mentioned in the previous papers on LAPP the 60/40 split is being reviewed by government.
- Treasury is currently leading this review of cost sharing agreement.



Change contd

- Treasury has indicated that they are expecting Local Authorities to manage their risk from natural hazards to infrastructural assets below the MPL level (i.e. earthquake - 1 in 1,000 years, flood - 1 in 500 years).
- Continued guaranteed Central Government assistance above this level which you will see is a major national and local event.
- Central Government's intent is that they are to be the insurer of last resort, not the first resort.



Current Situation

- Treasury have intimated that they will expect local authorities to have an understanding (including quantification) of the potential exposures in order to secure Central Government's support.
- Two of the key issues raised as part of this review are;
 - **The adequacy of asset valuations (and determining what is critical) I believe that Councils should have expertise to do this.**
 - **The quantification of the Probable Maximum Losses (PML sometimes MPL) for each hazard (This will require specialist skills not total agreement on using this measure)**



Probable maximum loss or PML (sometimes MPL).

- DEFINITION of ' Probable Maximum Loss (PML)'
- It is generally defined as the value of the largest loss that could result from a disaster, assuming the normal functioning of passive protective features (e.g. [firewalls](#), nonflammable materials, flood defences etc.) and proper functioning of most (perhaps not all) active suppression systems (e.g. [sprinklers](#)). Seismic PMLs are common
- This loss estimate is always less than (or in rare cases, equal to) the *Maximum Foreseeable Loss*, which assumes the failure of all active protective features.
- [Underwriting](#) decisions can be influenced by PML evaluations, and the amount of reinsurance ceded on a risk can be predicated on the PML.



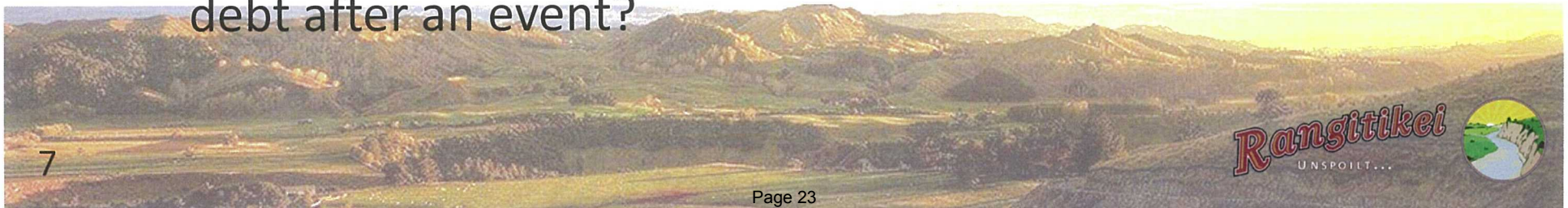
What does this mean

- AON our insurance broker are active with the BOP LASS in this space, modelling losses from Tsunami risks etc.
- As we are only too well aware NZTA are changing the emergency roading funding
- Likely that an LGRA will be formed, firstly advisory via guidelines then Council's might become accredited agencies (like current building consent process)
- Will role is being debated it is likely that more onus will be placed on council's managing their risks at a local level via their own resources, (reserves, debt and insurances).
- Emphasis will be on council understanding their risks of natural hazards and the integrity of infrastructure assets during these events
- Focus has been on waters but need to join the thinking with Roding and for RDC this is a major risk
- Government will further retreat to be the agency of last resort rather than first resort.



Councils changing responsibilities

- Councils will have to increasingly focus on good risk management practices at a local level for all assets waters and roading
- Post Christchurch Council has a decent understanding of its infrastructure and risks and has insurance in place to cover these risks both above ground via MWLASS and broker AON and below ground with LAPP.
- Need to retain this knowledge and documentation also do PML modelling.
- Roading exposure that we currently cannot cover with insurance, reserves will be used and have our ratepayers got the capacity to build up a \$3.5M reserve or pay the debt after an event?



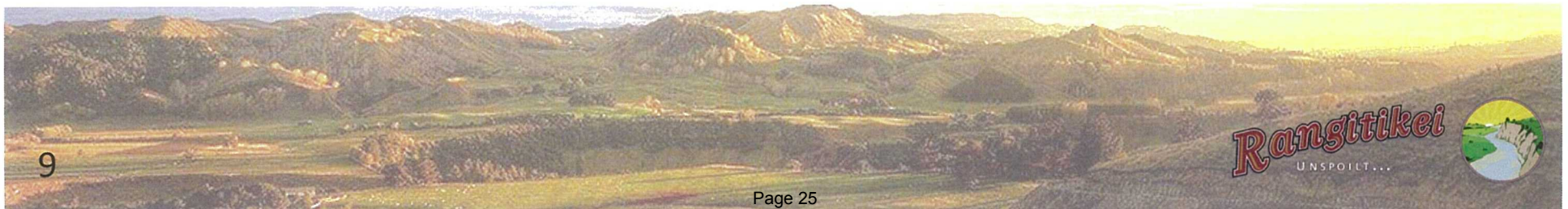
This change is in place for Roding

- Examples
- Wanganui have been told NZTA will not replace all of their existing bridges.
- I understand they have obtained market indications for insuring all their bridges total value of \$82,000,000 for \$33,000 annually
- RDC will have to look to insure our end of the one bridge \$2.5M cost (\$1,006 on above figures)
- The insurance market is moving to perhaps allow some roding cover in insurance bands cover once our reserves and NZTA money are used.
- However Wanganui have \$10M of cover for roding currently indicatively priced at \$450K from one council benefits of scale for a LASS initiative?



Potential opportunities

- Council may want to keep its emergency roading reserve at lower levels than \$3.5M say current level \$1.5M as NZTA will require us to use this first, increase/use General Reserves?
- It may be possible for council as part of a LASS insurance initiative to insure our share of the gap in funding ie from say \$1.5M to \$3.0M or a circa \$16M event informed by PML
- It would be prudent for NZTA to do the same exercise and get mutually supporting cover for their share of major events, ie council may have cover for the events up to \$50M NZTA \$500M in a region for example



What does this mean for council

- Change of its arrangements for “insurance” for above and below ground assets and roading are coming.
- Impact could be 2.5X increase for affected covers \$168K to \$420K for Lapp and natural disasters covers
- 60/40 will not continue (little detail on what replaces it or if govt funds some of these costs or is it just a transfer to Local Government). Some councils have 100% cover
- Govt will be insurer of last resort (high return period signalled)
- Council is likely to have to spend more on self insurance, reserves or insurance cover.

➤ Questions?



Attachment 4

Draft – 24 May 2016

Andy Watson
Mayor
Rangitikei District Council
Private Bag 1102
Marton 4741

Dear Andy

Audit for the year ending 30 June 2016

I am writing to outline our arrangements for the audit of the Rangitikei District Council for the year ending 30 June 2016. This letter has two main sections – details of the audit and an agreement to be signed.

Agreement to be signed

On the next page is an agreement for you to sign. Your signature confirms that the details of the audit match your understanding of the arrangements for this year's audit.

Please sign and return one copy of the agreement, along with a copy of the details of the audit.

Details of the audit

Here we set out the proposed arrangements for this year's audit. These include:

- business risks/issues and our audit response;
- areas of interest for all Local Authorities; and
- logistics (such as our audit team, timing, and fees).

Additional information attached

We have attached additional information about the audit in Appendix 1.

If there are additional matters that should be included, or any matters requiring clarification, please contact me.

Yours sincerely

Debbie Perera
Appointed Auditor

Agreement to be signed

I acknowledge that the details of the audit set out here are in keeping with my understanding of the arrangements for the audit.

Signed

Andy Watson
Mayor on behalf of the Council

Date

Details of the audit

1 Introduction

This document sets out the arrangements for the audit of the Rangitikei District Council (the District Council) for the year ending 30 June 2016. These include:

- business risks/issues and our audit response;
- areas of interest for all Local Authorities;
- logistics (such as our audit team, timing, and fees).

2 Your business risks/issues and our audit response

Based on the planning work and discussions that we have completed to date, we have identified what we consider to be the main business risks and issues facing the District Council. Many of these risks and issues are relevant to the audit because they affect our ability to form an opinion on your financial statements. As part of the wider public sector audit, we are also required to be alert to issues of effectiveness and efficiency, waste and a lack of probity or financial prudence (as set out in the Audit Engagement Letter dated 15 September 2015).

The table below sets out the business risk and issue that we have identified in line with these requirements. The left-hand column describes the risk and issue. In the right-hand column, we describe how we plan to respond to this during the audit.

| Your business risks and issues | Our audit response |
|--|--|
| June 2015 rainfall event | |
| As a result of the rainfall event that hit the District over 20-21 June 2015, the Council's roading infrastructure and its urban infrastructure networks all sustained damage. Significant work to remedy the damage has been completed during the 2015/16 year. | We will follow up on the progress of the repairs made to the District Council's affected infrastructure assets and ensure that they are appropriately reflected in the financial statements. |
| Performance measure rules | |
| The Non-Financial Performances Measures Rules 2013 promulgated by the Department of Internal affairs specify a set of standard performance measures for local authorities. The measures were included in the District Council's 2015-25 long term plan, and must be reported against in the 2016 annual report. | We will assess the District Council's reporting against these mandatory measures as part of our overall audit of the performance framework. |

| Your business risks and issues | Our audit response |
|---|---|
| Property, plant and equipment | |
| <p>The District Council periodically revalues its operational and infrastructural assets. The last full revaluation cycle for infrastructure assets was 30 June 2014. PBE IPSAS 17, <i>Property, Plant and Equipment</i>, requires that valuations are carried out with sufficient regularity to ensure that the carrying amount does not differ materially from fair value.</p> <p>The District Council needs to formally review whether a revaluation is needed this year for the asset classes that it is not proposing to revalue. It is important that you make this assessment at an early stage, to avoid the risk of this becoming a significant issue at a late stage of the audit.</p> | <p>We will review the District Council's assessment of whether there is any significant difference between the carrying amount and fair value of its operational and infrastructural assets.</p> |
| Management override | |
| <p>Management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it results in a risk of material misstatement due to fraud.</p> <p>It is a requirement of NZ ISA 240 <i>The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements</i> that we consider the risk of fraud due to management override and complete audit procedures to address this risk.</p> | <p>We will review accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud.</p> <p>For any significant transactions that are outside the normal course of business, or that otherwise appear to be unusual given our understanding of the entity and its environment and other information obtained during the audit, we will evaluate whether the business rationale (or lack thereof) of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets.</p> <p>We will test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.</p> |

We will also follow up on progress made by the District Council in its response to our previous recommendations.

Please tell us about any additional matters that we should be aware of as your auditor, and any specific significant business risks that we have not covered.

3 Areas of interest for all local authorities

| Areas of interest | Our audit response |
|-------------------|--------------------|
|-------------------|--------------------|

| Areas of interest | Our audit response |
|--|---|
| Rates legislative compliance | |
| <p>Rates are the District Council's primary funding source. Compliance with the Local Government (Rating) Act 2002 (LGRA) in rates setting and collection is critical to ensure that rates are validly set and not at risk of challenge. The District Council should ensure it has appropriate processes in place, including seeking legal advice where appropriate, to ensure compliance of its rates and rating processes with legislation.</p> | <p>For 2016 we will again consider the District Council's compliance with aspects of the LGRA that potentially materially impact on the financial statements. Principally this means a focus on the rates setting process – the consistency and completeness of the resolution and the Funding Impact Statement (FIS).</p> <p>We will also review a sample of differentially set and/or targeted rates to assess whether the matters and factors used are consistent with the LGRA.</p> <p>We will follow up any issues identified from our review of rates in previous years.</p> <p>We stress that our review of compliance with legislation is completed for the purposes of expressing our audit opinion. It is not, and should not be seen, as a comprehensive legal review. This is beyond the scope of the audit, and our expertise as auditors. The District Council is responsible for ensuring that it complies with applicable laws and regulations.</p> |
| Contract management | |
| <p>Contract management is an important component of procurement. Contract management includes the effective management and monitoring of the delivery of goods or services to the agreed levels. It is essential to ensuring that the District Council obtains value for money from the contracts its procurement processes have put in place.</p> <p>Contract renewals provide opportunities for the District Council to refresh contract expectations and deliverables to align to the LTP. This can also provide opportunities for efficiencies or other savings.</p> | <p>We will discuss the contract management process the District Council has and consider whether there is appropriate management. Where we identify particular risks related to contract management we may carry out additional work to review the District Council's policies, procedures or approach to contract management in practice.</p> |
| Project Management | |
| <p>Taking a project-managed approach is an important part of effectively controlling capital works, changes to key IT systems and the process of change more generally – whether that is change to service delivery, or change to the way the entity works.</p> | <p>We will review the District Council's approach to project management to help ensure that an adequate control framework is in place and operating effectively.</p> |

| Areas of interest | Our audit response |
|--|--|
| Electioneering | |
| <p>With the election in October the District Council needs to be careful that the content of the annual report and summary annual report (as well as any other publications issued by Council) cannot be seen as electioneering.</p> <p>We encourage the District Council to consider how it will manage the need to maintain ordinary business and continue to carry out its statutory responsibilities, while ensuring that its resources are not used, or perceived as being used, to give electoral advantage.</p> | <p>We will discuss how the District Council plans to manage the risks associated with the election. We will also review the annual and summary reports to ensure they are appropriate if issued prior to the election.</p> |
| Property, plant and equipment – impairment assessment | |
| <p>PBE IPSAS 21, <i>Impairment of Non-Cash-Generating Assets</i>, and PBE IPSAS 26 <i>Impairment of Cash-Generating Assets</i> respectively require that an entity assess, at the end of each reporting period, whether there is any indication that an asset (including intangible assets) may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset. The standard also provides guidance on some indicators that an asset may be impaired.</p> <p>We expect the District Council to have completed an impairment assessment to determine whether any assets will need to be impaired. This assessment needs to be made at an early stage, to avoid the risk of this becoming a significant issue at a late stage in the audit.</p> | <p>We will review the District Council's assessment of whether there are any indicators of impairment, and the resulting accounting treatment if applicable.</p> |
| Financial reporting disclosures | |
| <p>Schedule 10 of the Local Government Act and the Local Government (Financial Reporting and Prudence) Regulations 2014 detail disclosures to be included in the Annual Report. Council should review these requirements to ensure all disclosures have been included in the annual report.</p> | <p>We will check that all the disclosures required by schedule 10 of the Local Government Act and the Local Government (Financial Reporting and Prudence) Regulations 2014 have been appropriately included in the District Council's annual report.</p> |

| Areas of interest | Our audit response |
|---|--|
| Elected members – remuneration and allowance | |
| <p>The Local Government Act gives the Remuneration Authority responsibility for setting the remuneration of local government elected members. The Authority also has the role of approving a Local Authority's policy on allowances and expenses.</p> <p>The District Council's annual report must disclose the total remuneration received by or payable to each member of the local authority in the reporting period.¹ A local authority must disclose remuneration paid or payable to each member from both the local authority and any Council organisation of the local authority.</p> | <p>We will assess the District Council's compliance with the requirement to disclose the remuneration of each member of the local authority in the annual report against the relevant Local Government Elected Members Determination and any amendment to that Determination.</p> |
| Information technology | |
| <p>The District Council is dependent on its IT systems. The reliability of the IT systems, technology platforms, and associated controls is critical to maintaining the integrity of the District Council's data and ensuring continuity of services to its customers. The integrity of the IT systems supports the timely reporting of a quality Annual Report.</p> <p>We understand that District Council is continuing to implement changes and improvements to information technology systems and capability and reviewing how IT services should be delivered.</p> | <p>We will be completing a review of the District Council's IT General Controls (ITGC), which will include:</p> <ul style="list-style-type: none"> • IT security (network and applications; • business continuity and IT disaster recovery; • change management; and • operations, problems and incident management. <p>We will also maintain an awareness of any planned or implemented initiatives and the impact these may have on the District Council's processes and control environment.</p> <p>We will assess any impact such initiatives will have on our audit approach and requirements.</p> <p>To assist the audit team in performing their testing we may perform data analysis on selected business processes, such as journals.</p> |

¹ Schedule 10, clause 18, Local Government Act 2002.

| Areas of interest | Our audit response |
|---|---|
| Information management | |
| <p>The Office of the Auditor General (OAG) has asked auditors to provide examples of significant improvements in information management over time in the use, analysis and/or management of information, in line with this understanding. This may include examples of the entity excelling in their sector, by way of smart use of information, innovative solutions or technological advances.</p> <p>The OAG intend to use some of these examples in its Information overview report, and to build a collection of case studies that will be available to auditors and entities are keen to understand and learn from what others are doing.</p> | <p>We will discuss with the District Council whether there are any examples within the organisation of:</p> <ul style="list-style-type: none"> • significant improvements in the use and/or management of information; • small improvements over a period of time; • where it is sharing information to collectively inform and join together activities; • where it is excelling in the sector, either by way of innovative solutions or technological advances; and/or • how it keeps the information it holds secure. |

We will also follow up on progress made by the District Council in its response to our previous recommendations.

Please tell us about any additional matters that we should be aware of as your auditor, and any specific significant business risks that we have not covered.

4 Logistics

4.1 Our audit team

The Audit New Zealand staff involved in the audit are:

| | |
|----------------|-----------------------------|
| Debbie Perera | Audit Director |
| Chris Webby | Audit Manager |
| Robyn Dearlove | Information Systems Auditor |
| Jason Biggins | Tax Director |

4.2 Important dates in the audit process

Our proposed timetable is:

| | Date |
|---|-------------------|
| Interim audit | 13 June 2016 |
| Draft interim management report issued | 1 July 2016 |
| Draft financial statements available for audit ² | 31 August 2016 |
| Final audit begins | 5 September 2016 |
| Verbal audit clearance given | 22 September 2016 |
| Annual report ³ available for audit | TBC |
| Annual report proof clearance | TBC |

² Financial statements (including notes to the financial statements) with actual year-end figures

³ Annual report, including any Mayor's and Chief Executive's overview or reports

4.3 Our interim audit visit

We plan to carry out the interim audit during June 2016. During this visit, we will focus on updating our understanding of the Council's internal control. This will include reviewing the control environment, risk assessment processes and relevant aspects of information systems controls. We will use the results of this assessment to determine how much we can rely on the information produced from your systems during our final audit.

4.4 Our final audit visit

Our final audit is scheduled to start on 5 September 2016 and is expected to last three weeks. During this visit we will be auditing the balances, disclosures, and other information included in your financial statements and performance information.

4.5 Professional fees

Our audit fee estimate for the year ending 30 June 2016 is \$108,132 plus disbursements (GST exclusive). This is as agreed in the Audit Proposal Letter dated 1 July 2014.

The fee is an estimate and assumes that the expectations discussed in Appendix 1 will be met. If this does not occur, or the scope of the audit changes, we will discuss this further with you.

| We propose to bill as follows in 2016: | Amount |
|--|------------------|
| April | 20,000 |
| June | 40,000 |
| September | 30,000 |
| October | 18,132 |
| Total | <u>\$108,132</u> |

To ensure we can complete the audit within the proposed time frame (see section 4.2) and agreed fee, it is critical that you make appropriate supporting documentation available to us on a timely basis. If this is not the case, it is likely to result in cost overruns, which we will seek to recover from you. To help you prepare for the audit, we will liaise with management and provide them with a detailed list of the information we will need for the audit.

Appendix 1: Additional information about the audit

Our reporting protocols

Management reports

We will provide a draft of all management reports to management for discussion/clearance purposes. In the interests of timely reporting, we ask management to provide their comments on the draft within 10 working days. Once management comments are received the report will be finalised and provided to the Council.

Reporting of misstatements

We will include details of all uncorrected misstatements in our management report. Misstatements are differences in, or omissions of, amounts and disclosures that may affect a reader's overall understanding of the District Council's financial statements.

During the audit, we will provide details of any such misstatements we identify to an appropriate level of management. We will ask for each misstatement to be corrected in the District Council's financial statements. Where management does not wish to correct a misstatement we will seek written representations from representatives of the District Council's governing body that specify the reasons why the corrections will not be made.

Our expectations of you to enable an efficient audit

To enable us to carry out our audit efficiently within the proposed audit fee, we expect that:

- the District Council will provide us with access to all relevant records and provide information in a timely manner;
- your staff will provide an appropriate level of assistance;
- the financial statements will be available at the start of the final audit, include all relevant disclosures, and be fully supported by a detailed workpaper file; and
- the annual report and financial statements (including the statement of service performance) will be subjected to appropriate levels of quality review before submission for audit.

Our audit fee is based on the assumption that we will review no more than two sets of the draft annual report, one printer's proof copy of the annual report, and one copy of the electronic version of the annual report for publication on the District Council's website.

How we consider your compliance with statutory authority

As part of the Auditor-General's mandate, we carry out an audit of compliance with statutory authority. Our audit is limited to obtaining assurance that you have complied with certain laws and regulations that may directly affect the District Council's financial statements or general accountability. Our audit does not cover all of the District Council's requirements to comply with statutory authority.

Our approach to this aspect of the audit will mainly involve assessing the systems and procedures that are in place to ensure compliance with certain laws and regulations that we consider to be significant. We will also complete our own checklists covering the key requirements of significant legislation. In addition, we will remain alert for any instances of non-compliance that come to our attention. We will evaluate the relevance of any such non-compliance to our audit.