

Audit and Risk

Tabled Documents

29 November 2018

Item 12
Late Item

Final Audit Management Report Draft 30 June 2018
Drinking Water Standards - Presentation

Report to the Council on the audit of

Rangitikei District Council

For the year ended 30 June 2018

Contents

| | |
|--|----|
| Key messages | 3 |
| 1 Recommendations | 4 |
| 2 Our audit report..... | 6 |
| 3 Matters raised in the Audit Plan | 9 |
| 4 Assessment of your control environment | 11 |
| 5 Other recommendations arising from the audit..... | 13 |
| 6 Public sector audit..... | 16 |
| 7 Useful publications..... | 17 |
| Appendix 1: Status of previous recommendations | 19 |
| Appendix 2: Disclosures | 29 |

Key messages

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

Audit opinion

We have issued an unmodified audit opinion dated 11 October 2018. This means that we are satisfied that the financial statements present fairly, in all material respects, the Council's activity for the year and its financial position at the end of the year.

Significant matters considered during the audit

Fair Value assessment in a non-revaluation year

We reviewed Council's assessment that there had not been a material movement between the fair value and carrying value of the Council's revalued assets. From our review of the assumptions and information on which the assessment was based we agree with management's assessment that there has not been a material movement.

Performance measures

We reconfirmed that the performance framework from the 2015-2025 Long Term Plan remains an appropriate base to enable the Council to tell a concise performance story.

Overall we are satisfied that the Council's performance information over these measures fairly reflects the actual performance of the Council for the year. We have noted some areas of continuing improvement in section 4.x of the report and from prior year recommendations.

Thank you

We would like to thank the Council, management and staff for their assistance during the audit. With the loss of the GM – Finance and Business Support, we recognise that completion of this year's annual report within the timelines agreed was not easy so we would like to acknowledge the assistance our team received from your staff, in particular Ashley Dahl and Michael Hodder.

Debbie Perera
Appointed Auditor
16 November 2018

1 Recommendations



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

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

1.1 New recommendations

The following table summarises our recommendations and their priority.

| Recommendation | Reference | Priority |
|--|-----------|------------|
| <p>Review Changes to Water Billing Input</p> <p>Formalise the current review processes with by evidencing the independent review of the water billing and meter reading spot checks by way of signature and date.</p> | 4.1 | Beneficial |
| <p>Service Performance Information</p> <p>Implement a regular review of information entered to ensure that the correct data is being captured for attendance times.</p> <p>Continue to reinforce training on requirements to ensure staff are aware of the correct processes to follow and understand the information being captured.</p> | 5.1 | Necessary |

| Recommendation | Reference | Priority |
|--|-----------|-----------|
| High Annual Leave Balances Implement regular reviews of annual leave balances of all staff to ensure the liability and associated risks are minimised by implementing leave plans for staff with high leave balances. | 5.2 | Necessary |
| Compliance with the Local Government Elected Members (Certain Local Authorities) Determination Monitor payments to Councillors and Community Board members to ensure that they comply with the Local Government Elected Members (Certain Local Authorities) Determination. | 5.3 | Necessary |

1.2 Status of previous recommendations

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

| Priority | Priority | | | |
|---|----------|-----------|------------|-----------|
| | Urgent | Necessary | Beneficial | Total |
| Open - no progress has been made | - | 6 | - | 6 |
| In Progress - progress is being made, but not yet fully resolved. | - | 15 | 2 | 17 |
| Implemented or closed | - | 7 | 1 | 8 |
| Management Accepts Risk (Closed) | - | 1 | - | 1 |
| Total | - | 28 | 3 | 31 |

2 Our audit report

2.1 We issued an unmodified audit report



We issued an unmodified audit report on 11 October 2018. This means we were satisfied that the financial statements and statement of service performance present fairly the Council's activity for the year and its financial position at the end of the year.

In forming our audit opinion, we considered the following matters. Refer to sections 3 and 4 for further detail on these matters.

2.2 Uncorrected misstatements

The financial statements are free from material misstatements, including omissions. During the audit, we have discussed with management any misstatements that we found, other than those which were clearly trivial. There were no significant misstatements identified during the audit that required correcting. All significant misstatements identified during the audit have been corrected.

2.3 Corrected misstatements

We also identified misstatements that were corrected by management. These corrected misstatements had the net effect of increasing net surplus deficit by \$218,000 accumulated funds by the same amount compared to the first draft financial statements. The corrections related to recognising the gain on disposal of investments held as fair value through equity through net surplus and the gain on the sale of forestry through revenue.

| Current year corrected misstatements | Reference | Assets | Liabilities | Equity | Financial performance |
|---|-----------|---------|-------------|---------|-----------------------|
| | | Dr (Cr) | Dr (Cr) | Dr (Cr) | Dr (Cr) |
| Fair value through other comprehensive Income reserve | 1 | | | 198,000 | |
| Other Comprehensive Income | | | | 20,000 | |
| Net surplus (deficit) | | | | | (218,000) |
| | | | | | |
| Other expenses | 2 | | | | 264,000 |
| Revenue | | | | | (264,000) |

1. Adjustment for the transfer of fair value reserves to net/surplus (deficit) on de-recognition/disposal of corporate bonds and gain on sale going through net/surplus (deficit).
2. Adjustment to recognise the gain on the sale of forestry assets which had been netted off against other expenses.

2.4 Corrected disclosure deficiencies

The following disclosure deficiencies were corrected as part of the audit:

| Detail of disclosure deficiency |
|---|
| Improvements were required to the variance explanations to ensure these were transparent and more clearly articulated the reasons for significant movements. |
| Increasing the term deposit with original maturities of 4-12 months by \$2m. The term deposit term had been incorrectly classified as cash and cash equivalents when the term of the investment was greater than three months. |
| Including rates penalties of \$566k under note 3 rates revenue. Rates penalties had been included in other revenue but as they are included as rates revenue in the accounting policy they were reclassified to rates revenue. |
| Reclassifying \$528k of rates in advance as income in advance and \$131k of payroll accruals as employee entitlements. They had been classified as other accruals/accrued expenditure. |
| Several disclosures relating to remuneration disclosures including the salary band information, CEO remuneration and key management personnel disclosures were amended to take into account additional full time equivalents or to include all remuneration benefits. |
| Several Funding impact statements were adjusted as a results of some of the changes to the main financial statements and where some costs and funding had been incorrectly allocated or recognised. |
| There were a few corrections to the cash flow mainly relating to the adjustments for revenue in advance, and recognising movements in the investing cash flow relating to the other current financial assets, and the forestry sale. |
| There were a few changes required to update prior year information and ensure consistency of note information and the face of the accounts and within disclosures. |

2.5 Corrected Statement of Performance deficiencies

There were some corrections to initial performance data reported as part of audit review. We also noted areas where prior year information or targets had not been updated in the initial drafts.

2.6 Quality and timeliness of information provided for audit



Overall the quality and timeliness of information provided to audit was good especially under the circumstances of this year's audit. Council management worked well with the audit team over a more extended audit timeframe and was good to see supporting working papers for the balances in the financial accounts.

We have noted some areas of improvement for the 2019 audit which will be important for Council management to be aware of given that next year is Council elections. It is expected that most councils will be wanting to adopt their accounts prior to the elections which will potentially create added resource constraints.

The particular areas we would like to see improve are:

- Ensuring that fair value assessments are performed earlier for assets not being revalued;
- Quality assurance review over the accounts performed by a staff member not directly involved in collating the information; and
- Ensuring that a complete annual report is provided at the start of the audit. When draft annual reports are not complete this has a flow on impact to timeliness of reviews by the Audit Manager and Director and may result in late changes.

We also noted that for property, plant and equipment there may be some benefit in taking a similar approach to this year's audit, with the audit work performed in advance of the full audit team being on site.

We will liaise with management around improving the process going forward.

3 Matters raised in the Audit Plan



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

| Audit risk/issue | Outcome |
|--|--|
| 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>To reduce this risk to an acceptable level we completed the following audit work:</p> <ul style="list-style-type: none"> • Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. • Reviewed accounting estimates for biases and evaluated whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. • Evaluated any unusual or one-off transactions, including those with related parties. • Maintained awareness of any significant transactions that were outside the normal course of business, or that otherwise appear to be unusual given our understanding of the Company and its environment, and other information obtained during the audit. <p>From our testing we did not identify any issues that indicated management override.</p> |
| Fair value and Impairment assessment of property, plant and equipment | |
| <p>The Council revalues its operational and infrastructural assets on a three yearly cycle. PBE NZ IPSAS 17, Property, Plant and Equipment, requires that valuations are carried out with enough regularity to ensure that the carrying amount does not differ materially from fair value</p> <p>The Council revalues its operational and infrastructure assets on a three yearly cycle. The last full revaluation cycle for</p> | <p>We have:</p> <ul style="list-style-type: none"> • Reviewed the Council's assessment of whether there is any significant difference between the carrying amount and fair value of its property, plant and equipment; • Reviewed the Council's assessment of whether there were any indicators of impairment, and the resulting accounting treatment if applicable; and |

| Audit risk/issue | Outcome |
|---|--|
| <p>infrastructure and land and building assets for the Council was 30 June 2017.</p> <p>In a non-revaluation year the Council must consider whether there has been any significant movement in the fair value of the assets.</p> <p>PBE IPSAS 21 Impairment of Non-Cash-Generating Assets and PBE IPSAS 26 Impairment of Cash Generating Assets require assets held at cost to be assessed for indicators of impairment on an annual basis.</p> <p>On a yearly basis the Council must review its property, plant and equipment for impairment indicators.</p> | <ul style="list-style-type: none"> Reviewed the extent of improvements made to its impairment assessment process. <p>From our review of the assumptions and information on which the fair value assessment was based we agree with management's assessment that there has not been a material movement between the fair value and carrying value of the Council's revalued assets.</p> <p>We note that this assessment did not occur until the final audit was underway. Had there been a material difference between the carrying value and fair value of infrastructure assets there would not be enough time for Council to undertake a revaluation.</p> |

4 Assessment of your control environment



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

4.1 Control environment

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

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

In performing this assessment we have identified areas where we believe the control environment can be improved. These matters are detailed in this report.

4.2 Internal controls

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

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

We identified the following areas for improvement:

4.3 Review Changes to Water Billing Input

Recommendation

Formalise the current review processes with by evidencing the independent review of the water billing and meter reading spot checks by way of signature and date.

Finding

We noted that the Customer Services Officer can manually change the water meter readings in the system when they are uploaded. There is no independent review of the manual changes that have been made which gives rise to a risk of changes not being made appropriately.

We are aware that Council will perform reasonableness checks over water billing amounts and do spot checks to confirm that meter readings are in line with the automatic readings. Ensuring that these checks are performed on a regular basis and independently evidenced as reviewed will mitigate the risk of undetected errors arising from any manual changes.

Management comment

4.4 Prior year internal control recommendations

We were pleased to note some of our prior year internal control recommendations have been addressed. However, we note that there are still a number of prior year recommendations which are still open or in progress as noted in Appendix 1. We understand that given the circumstances that further improvements since year end would have been difficult without input from the GM – Finance and Business Support.

The key prior recommendations to be addressed relate to Information system controls, procurement, contract management and capital WIP reconciliations.

5 Other recommendations arising from the audit



We have the following recommendations arising from our final audit visit.

5.1 Input of data in to the client relationship management system

Recommendation

Implement a regular review of information entered to ensure that the correct data is being captured for attendance times

Continue to reinforce training on requirements to ensure staff are aware of the correct processes to follow and understand the information being captured.

Finding

We found that not all attendance times were calculated accurately. This is due to how data to calculate the median time is collated. Where the calls are entered and closed off before job sheets are received back the actual arrival time is not always being captured. Rather the earlier time of when the call has been closed off is used. As a result the calculated median time is potentially lower than it should be with number of very low attendance times.

We brought this to the attention of Council management so the issue was rectified for the reported results in the annual report. However, it did highlight the need to reinforce training and ensuring staff involved understand why the information is being captured and how it relates to the performance measures. Undertaking regular reviews to ensure that procedures are being followed and results are accurately captured will also mitigate the risk of inaccurate reporting. Management are aware of this and follow up actions are being put in place.

Management Comment

5.2 High annual leave entitlements

Recommendation

Implement regular reviews of annual leave balances of all staff to ensure the liability and associated risks are minimised by implementing leave plans for staff with high leave balances.

Findings

We found that the number of staff with leave accrued, greater than four weeks had increased from 17 to 22 and the associated leave liability had increased from \$173k at 30 June 2017 to \$205k as at 30 June 2018.

Excessive leave balances raise the following risks:

- weaker internal control as “job rotation” is reduced;
- negative impact on the health and productivity of staff;
- disruption to normal business operations if key staff are required to take prolonged periods of leave to reduce their leave balance; and
- increased salary/wage costs as accumulated leave balances increase with future wage increases.

We understand that reducing leave balances is an area of focus for Council with an annual leave report now being prepared on a quarterly basis to monitor and manage staff with high leave balances.

Management comment

5.3 Compliance with the Local Government Elected Members (Certain Local Authorities) Determination

Recommendation

Implement a process to ensure that that Councillor and community board member payments comply with the Local Government Elected Members (Certain Local Authorities) Determination

Findings

We note that there was a small overpayment to a Councillor during the year under review which was approved by the CEO. As remuneration is set under the Local Government Act - Elected Members (Certain Local Authorities) Determination, best practice is for overpayments to be repaid.

Implementing a process to identify the likelihood of any overpayment during the year would mitigate this risk going forward.

Management Comment

5.4 Verbally discussed recommendations

We have made other recommendations on minor issues identified during the audit. These were communicated to management and a summary is detailed below:

- Provide a listing of outstanding accounts payable invoices that is reconciled to the accounts payable control account at year-end.
- As part any updates to sensitive expenditure policies review the OAG guidance on <https://www.oag.govt.nz/2007/sensitive-expenditure/part4.htm>. This will assist in identifying any gaps or improvements required to current policies.
- To evidence (sign off) on hardcopy review done before uploading NZTA claims into Transport Investment Online (TIO).

6 Public sector audit



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

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

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

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

We have no problems with the entity's performance in this regard.

7 Useful publications



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

| Description | Where to find it |
|---|---|
| Client updates | |
| <p>In March 2018, we hosted a series of client updates. The theme was “Our high performing and accountable public sector”.</p> <p>These included speakers from both Audit New Zealand and external organisations. Relevant sessions for the Council include:</p> <ul style="list-style-type: none"> • A high performing and accountable public sector; • Economic outlook • What do stakeholders want to see in the annual report • Our LTP process • Procurement Functional Leadership • Procurement – an Audit New Zealand perspective • Accounting technical update | <p>On our website under publications and resources.</p> <p>Link: Client updates</p> |
| Model financial statements | |
| <p>Our model financial statements reflect best practice we have seen to improve financial reporting. This includes:</p> <ul style="list-style-type: none"> • significant accounting policies are alongside the notes to which they relate; • simplifying accounting policy language; • enhancing estimates and judgement disclosures; and • including colour, contents pages and subheadings to assist the reader in navigating the financial statements. | <p>On our website under publications and resources.</p> <p>Link: Model Financial Statements</p> |

| Description | Where to find it |
|---|---|
| Tax matters | |
| As the leading provider of audit services to the public sector, we have an extensive knowledge of sector tax issues. These documents provide guidance and information on selected tax matters. | On our website under publications and resources. Link: Tax Matters |
| Data in the public sector | |
| The Office of the Auditor-General (OAG) has published a series of articles about how data is being used in the public sector. These cover: <ul style="list-style-type: none"> functional leadership; building capability and capacity; collaboration; and security. | On the OAG's website under publications. Link: Data in the public sector |
| Matters arising from the 2016/18 audits | |
| The OAG has published a report on the results of the 2016/17 audits for the sector. | On the OAG's website under publications. Link: Recent publications |
| Audit Committees | |
| The OAG has released various best practice information on Audit Committees. | On the OAG's website under "Our Work – Audit Committee Resources". Link: Audit Committee Resources |
| Infrastructure as a Service | |
| The OAG has completed a performance audit on Infrastructure as a Service and considered whether the benefits are achieved. | On the OAG's website under publications. Link: Infrastructure as a Service |
| Earthquake accounting matters | |
| Council is affected by Earthquake Prone properties. We have included a link on how to account for these earthquake prone assets. | On our website under publications and resources. Link: Earthquake accounting |

Appendix 1: Status of previous recommendations

Open recommendations

| Recommendation | First raised | Status |
|---|---------------------|---|
| Necessary | | |
| Inconsistent procedures for adding and removing users from systems Procedures for amending and removing access should be formalised and all council staff be made aware of their responsibilities for advising IT about staff leaving. | Prior to FY 2016/17 | Open - no progress has been made |
| Process for removing Manawatu District Council staff from the Council's IT systems when they leave We continue to recommend that a review and improvement to procedures for adding, reviewing and removing external users access be done to ensure security of councils systems and data. | Prior to FY 2016/17 | Open - no progress has been made Management Comment: <i>Current practice is to freeze accounts after three months if inactive.</i> <i>This requirement will be reiterated to MDC HR staff, so that the termination in Council's IT systems is done the same way (and time) as with RDC staff.</i> |
| Virus and Patch Management IT need to develop monitoring and reporting on the status of patching and anti-virus updates across councils IT to ensure they remain up to date. | Prior to FY 2016/17 | Open - no progress has been made |
| Monthly capital work in progress reconciliations Implement a monthly reconciliation of capital work in progress. | 2016/17 | Open - no progress has been made |
| Capital Work in progress Review the capital WIP balance to: <ul style="list-style-type: none"> clearly identify projects included in the balance; perform an impairment assessment over the outstanding WIP balance at year-end; and ensure projects are | Prior to FY 2016/17 | Open - no progress has been made |

| Recommendation | First raised | Status |
|--|----------------------------|---|
| Necessary | | |
| capitalised on a timely basis once they are ready for use. | | |
| Carry forward of capital expenditure Continue to reduce the amount of capital expenditure carried forward to the next financial year | Prior to FY 2016/17 | Open - no progress has been made |

In Progress recommendations

| Recommendation | First raised | Status |
|--|----------------------------|---|
| Necessary | | |
| No Regular Testing of Business Continuity and IT Disaster Recovery Plans We continue to recommend that Business Continuity and IT Disaster Recovery plans be finalised. As part of the project to implement new IT infrastructure we recommend that testing of failover to the new secondary datacentre be performed and the IT DR plan be finalised. | Prior to FY 2016/17 | In Progress - progress is being made, but not yet fully resolved. We understand that the refresh of the Council's IT infrastructure should address this. |
| IS Policies are not up to date We recommend that the new IS policies be finalised and communicated to all staff and contractors. The staff handbook needs to be updated to match the new IS policies. | Prior to FY 2016/17 | In Progress - progress is being made, but not yet fully resolved. We have been advised that a detailed work programme has been developed with advice from the Association of Local government Information Managers (ALGIM). Guidance has been issued to staff on cybersecurity; this will be incorporated into the IS policies in the staff handbook (and the obsolete 2010 draft policies removed from the Intranet). |

| Recommendation | First raised | Status |
|---|-----------------------------------|---|
| Necessary | | |
| <p>Lack of controls around MagiQ staff access to councils systems</p> <p>All users (including vendor staff) should have individual login accounts</p> <p>Test environments should be maintained and vendor access should be locked down to test environments unless there is a specific request which requires access to production data. These requests should be logged.</p> <p>External parties need to advise council when any of their staff leave so that access can be immediately terminated.</p> | <p>Prior to FY 2016/17</p> | <p>In Progress - progress is being made, but not yet fully resolved.</p> <p>We have been advised that management will work with MagiQ to implement and maintain a user login system that provides the appropriate level of system access/management control. This will include regular review of the status of MagiQ staff to ensure staff who leave that company are unable to access Council's system.</p> |
| <p>Reviews of MagiQ users access levels</p> <p>The review of users access levels in MagiQ needs to be finalised to ensure access to change critical council data is limited to approved personnel</p> | <p>Prior to FY 2016/17</p> | <p>In Progress - progress is being made, but not yet fully resolved.</p> <p>The District Council is concerned about levels of access and are looking to develop a report to monitor this access so routine reviews are feasible.</p> |
| <p>Performance measure rules</p> <p>Continue to review the effectiveness of the collection and reporting of data</p> | <p>Prior to FY 2016/17</p> | <p>In Progress - progress is being made, but not yet fully resolved</p> <p>Progress has been made in this regard but can still be improved. Refer to 5.1</p> |
| <p>Review of Procurement Practice</p> <p>As part of our 2016 audit we completed a review of the joint procurement process undertaken by Manawatu District Council, Horowhenua District Council, and the Council. Our summarised recommendations are detailed below:-</p> <ul style="list-style-type: none"> • Conflict of interest declarations to be signed off by the appropriate authority at the time that they are signed off by the person completing the declaration; • Declarations to be regularly updated, both actively and at key stages of the procurement process; | <p>Prior to FY 2016/17</p> | <p>In Progress - progress is being made, but not yet fully resolved</p> <p>A review of the Procurement Policy is in progress. Council has hired a Principal Advisor for Infrastructure in the second half of 2018. The review is part of their work programme.</p> |

| Recommendation | First raised | Status |
|--|-----------------------------------|--|
| Necessary | | |
| <ul style="list-style-type: none"> • Declarations to be completed by those with the ability to influence the decision of the evaluation team, regardless of whether or not these individuals have decision making power; • A business case be prepared for all procurements of significant value and risk; • A procurement strategy or plan should specify the roles and responsibilities of those involved in the process. This includes those sitting on the evaluation team and any advisors to the process; • Consider risks during the procurement planning stage. These risks relate to the procurement process rather than the contract; and • While the procurement strategy identified the broad scope of the procurement, we would expect to see more specificity around timing and quality of what was being procured. | | |
| <p>Succession Planning</p> <p>There are some Council staff members who have a vast amount of sector knowledge. The Council needs to ensure that there are succession plans in place for when these staff members leave so that the operations of the Council will not be effected. There is a risk that once these staff members leave, there will no longer be this knowledge base within the Council.</p> | <p>Prior to FY 2016/17</p> | <p>In Progress - progress is being made, but not yet fully resolved</p> <p>The District Council has a mechanism called PROMAP which can help mitigate this risk by capturing job processes and instructions on how to do these.</p> |

| Recommendation | First raised | Status |
|---|---------------------|--|
| Necessary | | |
| Contract management <p>Endorse an integrated policy for organisation-wide use and review the Council's current contract management system for appropriateness.</p> <p>Monitor service contracts between contractors and the Council against the Key Performance Indicator's (KPI's); to confirm the work performed is completed to a satisfactory standard.</p> | Prior to FY 2016/17 | In Progress - progress is being made, but not yet fully resolved <p>The District Council is aiming for this as a flow-on from the review of Procurement Policy.</p> |
| Sensitive expenditure approvals <p>We recommend that:</p> <ul style="list-style-type: none"> All credit card statements get approved on a one-up basis in a timely manner; and Sufficient supporting documentation for purchases be included with the credit card statement. | Prior to FY 2016/17 | In Progress - progress is being made, but not yet fully resolved <p>We understand that the Team Leader - Finance and Business Support has reminded staff Council wide that a valid tax invoice needs to be submitted with claims.</p> <p>We will follow up progress on this in 2018/19.</p> |
| Monitoring of Contractor Performance <p>Implement a quality assurance (QA) programme over services contracted out to third parties. This is especially important when the performance of these contractors feed into Council's KPIs, for example responding to roading call outs.</p> | Prior to FY 2016/17 | In Progress - progress is being made, but not yet fully resolved <p>The District Council is aiming for this as a flow-on from review of Procurement Policy review.</p> |
| Request for service <p>Review the process and remind staff of the need to ensure that the request for service (RFS) system is updated on a timely basis.</p> | Prior to FY 2016/17 | In Progress - progress is being made, but not yet fully resolved <p>The council has implemented:-</p> <ul style="list-style-type: none"> Ensuring that the after-hours call centre provider's staff are familiar with RDC requirements; A process for excluding internal service requests; Clarification of change of categorisation of service requests; and |

| Recommendation | First raised | Status |
|---|----------------------------|---|
| Necessary | | |
| | | <ul style="list-style-type: none"> At least weekly verification of roading, utilities and animal control. <p>However improvements can still be made and Council is taking steps to resolve this. Refer also to 5.1</p> |
| Project Management Perform a review over Council's project management system to ensure that appropriate project management techniques are implemented, including developing a post implementation review (PIR) to bring forward lessons learnt from completed projects to current projects. | Prior to FY 2016/17 | In Progress - progress is being made, but not yet fully resolved The Council is aiming for this as a flow-on from review of Procurement Policy review. |
| Marton Pool Perform a review of all invoices received from Nicholls Swim Academy to ensure they are paid in accordance with the contract. We also recommend that Council establish a process to ensure the reasonableness of the credit notes received for pool entry fees. | Prior to FY 2016/17 | In Progress - progress is being made, but not yet fully resolved A high level review is performed to ensure invoiced amounts are in accordance with the contract. There is no detailed review of items in the credit note but a check is performed to ensure the amount is reasonable. Taihape pool is also now managed by Nicholls swim academy. |
| Creditors Masterfile Maintenance review Independently review the Creditors Masterfile Maintenance report back to supporting documentation by a staff member that has no edit-access. We also recommend that adequate supporting documentation for changes made to the Masterfile be retained and filed with the Creditors Masterfile Maintenance Report. | Prior to FY 2016/17 | In Progress - progress is being made, but not yet fully resolved Team Leader Finance and Business Support will work with IT and MagiQ to amend the independent reviewer's access to "view only" so she can review but not make changes made to Creditors Masterfile. |

In Progress recommendations

| Recommendation | First raised | Status |
|--|-----------------------------------|---|
| Beneficial | | |
| <p>Conflict of Interest Policy</p> <p>There is no organisation wide conflict of interest policy in place for Council Staff.</p> <p>While the staff handbook briefly mentions conflicts of interest, it is not robust.</p> <p>We expect Council to have a conflict of interest policy in place containing:</p> <ul style="list-style-type: none"> • The principles that should guide decision making about Conflicts of Interest, including integrity, honesty, transparency, openness, independence, good faith, fairness, and impartiality; • Comprehensive guidance on what may constitute a Conflict of Interest; • Examples of circumstances in which there may be a perceived, actual, or potential interest; • Differences between pecuniary and non-pecuniary interests and when these may arise; • Broad range of options for avoiding or mitigating any Conflicts of Interest that may arise; and • What gifts or hospitality may be acceptable and the process which applies to disclosure. | <p>Prior to FY 2016/17</p> | <p>In Progress - progress is being made, but not yet fully resolved</p> <p>The District Council is developing a separate conflict of interest policy which will be cross-referenced in section 15.4 of the Staff Handbook.</p> |

| Recommendation | First raised | Status |
|---|-----------------------------------|---|
| <p>Update to staff handbook</p> <p>The staff handbook could be improved by including the following specific matters:</p> <ul style="list-style-type: none"> Prohibition (or disclosure) of any significant financial interests in customers, suppliers or competitors. Prohibition or disclosure of the receipt of gifts, loans or other special privileges from customers, suppliers or competitors. Prohibition of the payment of bribes and certain types of rebates or other forms of compensation to induce sales or obtain favourable contract terms. Prohibition of the use of the Council's funds to reimburse employees or others for expenditures that would violate the entity's policies. <p>Prohibition of unrecorded cash funds.</p> | <p>Prior to FY 2016/17</p> | <p>In Progress - progress is being made, but not yet fully resolved</p> <p>The District Council will address these issues in conjunction with the Conflict of Interest Policy.</p> |

Implemented or closed recommendations

| Recommendation | First raised | Status |
|--|-----------------------------------|---|
| Necessary | | |
| <p>Supporting documentation for job closures</p> <p>We recommend that support is sent through via email or paper forms for all service requests so a clear audit trail is left</p> | <p>Prior to FY 2016/17</p> | <p>Closed</p> <p>We have had no issues regarding missing documentation from our testing performed over the 2017/18 service requests.</p> |
| <p>Documentation of change management procedures</p> <p>Last year we noted that major upgrades to MagiQ go through testing before being made live, however there are no documented procedures for consistently managing changes to councils IT applications and infrastructure.</p> | <p>Prior to FY 2016/17</p> | <p>Closed</p> <p>Change management policy and procedures are in place and operating for infrastructure and application changes.</p> |

| Recommendation | First raised | Status |
|--|---------------------------------|---|
| Credit card policy update Update Council's credit card policy to include: <ul style="list-style-type: none"> • Details on who is eligible for a credit card; • A process for cancelling and destroying cards that are no longer required; and • Specific reference to good practises to follow when making purchases over the internet e.g. security practises. | Prior to FY 2016/17 | Closed The Council has updated the Credit card policy which contains the recommended policy updates. |
| Expenditure coding processes Continue to liaise with the providers of MagiQ to resolve the expenditure coding issues for complex invoices | 2016/17 (Interim report) | Closed Only 2 months were affected due to update of MagiQ version. No issues have been encountered since. |
| Payroll reviews Implement a system to ensure that there is adequate evidence that key payroll checks and report reviews have taken place during the payroll process. | 2016/17 (Interim report) | Closed No issues noted with payroll controls during testing this year. |
| Manual expenditure approval processes Implement an independent review process for expenditure that is approved manually to ensure that the expenditure is appropriate and bona fide. | 2016/17 (Interim Visit) | Closed Two signatures are now required on a one up basis. |
| Payroll maintenance The payroll maintenance report be signed as evidence of review and the supporting documentation of the changes also be signed. The independent reviewer extract the report using appropriate date parameters to ensure it captures all changes since the last review. This will include the reviewer manually documenting the date range of the report if the system cannot automatically include this information. | 2016/17 (Interim report) | Closed No issues noted with our testing in FY 2017/18. |

| Recommendation | First raised | Status |
|--|-----------------------------------|--|
| Beneficial | | |
| <p>Rates remissions</p> <p>Review the level of rates remissions on a regular basis to ensure that the rates being remitted remains reasonable and in line with the policy and affordable for the Council.</p> <p>Review the current practices to ensure the Council reduces the risk of unnecessarily remitting rates to ratepayers who are no longer eligible.</p> | <p>Prior to FY 2016/17</p> | <p>Closed</p> <p>All rates remissions requested are reviewed by Council against their policy.</p> |

Management Accepts Risk (Closed)

| Recommendation | First raised | Status |
|---|-----------------------------------|---|
| Necessary | | |
| <p>Earthquake-prone Assets</p> <p>Undertake assessments of Council earthquake prone assets to establish the extent of exposure in relation to buildings that do not meet the required percentage of code. Based on the findings of these assessments we recommend that Council take appropriate action to ensure public safety and ensure that these assets have been appropriately accounted for.</p> | <p>Prior to FY 2016/17</p> | <p>Closed – Management Accepts Risk</p> <p>No change from prior year status of buildings as council's plan is to abandon them.</p> <p>Council has appropriately written down the assets to recognise the costs associated with earthquake repairs.</p> |

Some progress has been made since our last report. We recommend the District Council continues their efforts in addressing issues raised.

Appendix 2: Disclosures

| Area | Key messages |
|--|---|
| Our responsibilities in conducting the audit | <p>We carried out this audit on behalf of the Controller and Auditor-General. We are responsible for expressing an independent opinion on the financial statements and performance information and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001.</p> <p>The audit of the financial statements does not relieve management or the Council of their responsibilities.</p> <p>Our Audit Engagement Letter contains a detailed explanation of the respective responsibilities of the auditor and the Council.</p> |
| Auditing standards | <p>We carried out our audit in accordance with the Auditor-General's Auditing Standards. The audit cannot and should not be relied upon to detect instances of misstatement, fraud, irregularity or inefficiency that are immaterial to your financial statements. The Council and management are responsible for implementing and maintaining your systems of controls for detecting these matters.</p> |
| Auditor independence | <p>We are independent of the Council in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): <i>Code of Ethics for Assurance Practitioners</i>, issued by New Zealand Auditing and Assurance Standards Board.</p> <p>Other than the audit, we have no relationship with, or interests in, the Council.</p> |
| Fees | <p>The audit fee for the year is \$120,298 as detailed in our Audit Proposal Letter.</p> <p>Other fees charged in the period are \$79,000, for LTP 2018-2028 audit.</p> |
| Other relationships | <p>We are not aware of any situations where a spouse or close relative of a staff member involved in the audit occupies a position with the Council that is significant to the audit.</p> <p>We are not aware of any situations where a staff member of Audit New Zealand has accepted a position of employment with the Council during or since the end of the financial year.</p> |

AUDIT NEW ZEALAND

Mana Arotake Aotearoa

www.auditnz.govt.nz

Audit New Zealand
PO Box 149
Palmerston North 4440
Phone: 04 496 3099





Agenda

- NZ Drinking Water Standards (NZDWS) Compliance Framework
- 2017/18 Compliance Report
 - Areas of compliance
 - Areas of non compliance
- Remedial Action Taken to Date
- Appeal Process



NZDWS Compliance Framework

- Water Source
- Log Credits
- Population Served
- Treatment Requirements
- Sampling Requirements
- Reporting Requirements

3

 **RANGITIKEI**
DISTRICT COUNCIL

2017/18 Compliance Report (Compliance)

- Treatment Plants (All)
 - Cyanotoxin
 - Chemical
 - Radiological (except Ratana)
- Distribution Networks (All)
 - Bacterial
 - Cyanotoxin
 - Chemical (except Marton)

4

 **RANGITIKEI**
DISTRICT COUNCIL

2017/18 Compliance Report (Non-Compliance)

- Treatment Plants
 - Mangaweka – Bacterial & Protozoa
 - Bulls – Protozoa
 - Hunterville – Protozoa
 - Marton – Protozoa
 - Ratana – Protozoa & Radiological
 - Taihape – Protozoa
- Distribution Networks (All)
 - Marton – Chemical

5

 **RANGITIKEI**
DISTRICT COUNCIL

The Actual NZDWS Non-Compliance

- Treatment Plants
 - Turbidity – 3 minute continuous sample periods
 - Monthly Report (daily vs monthly summary)
 - Sampling Frequency
 - NZDWS – Section 10 v Section 6
- Distribution Networks – Chemical
 - Reporting of Remedial Actions

6

 **RANGITIKEI**
DISTRICT COUNCIL

Remedial Action Taken to Date

- Monthly Reporting Template
- Correct NZDWS Assessment Criteria
- Provision of Compliance Data
- Staff Stability

7

 **RANGITIKEI**
DISTRICT COUNCIL

Appeal Process

- Two Months
- Key Points of Appeal
 - Reporting information

8

 **RANGITIKEI**
DISTRICT COUNCIL

Questions

