

**AUDIT & RISK
COMMITTEE MEETING**

ORDER PAPER

THURSDAY, 27 JUNE 2019, 9.00AM

**COUNCIL CHAMBER, RANGITĪKEI DISTRICT COUNCIL
46 HIGH STREET, MARTON**

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Chair - Mr Craig O'Connell

Deputy Chair - Councillor Nigel Belsham

Membership

Councillors Angus Gordon and Dean McManaway.

His Worship the Mayor, Andy Watson (ex officio)

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.

Making this place home.





Rangitikei District Council

Audit and Risk Committee Meeting

Agenda – Thursday 27 June 2019 – 9:00 a.m.

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The quorum for the Audit and Risk Committee is 3.

Council's Standing Orders (adopted 3 November 2016) 10.2 provide: The quorum for Council committees and sub-committees is as for Council, i.e. half the number of members if the number of members (including vacancies) is even or a majority if the number of members is odd.

1 Welcome

2 Council prayer

3 Public Forum

4 Apologies

5 Members' conflict of interest

Members are reminded of their obligation to declare any conflicts of interest they might have in respect of items on this agenda.

6 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.

7 Confirmation of minutes

The Minutes of the Audit/Risk Committee meeting held on 28 February 2019 are attached.

File ref: 3-CT-17-2

Recommendation:

That the Minutes of the Audit/Risk Committee meeting held on 28 February 2019 be taken as read and verified as an accurate and correct record of the meeting.

8 Chair's report

A report will be provided at the meeting.

Recommendation:

That the Chair's report to the Audit/Risk Committee meeting held on 27 June 2019 be received.

9 Council decisions on recommendations from the Committee

There were no recommendations.

10 Questions put at previous meeting for advice or action

There were no questions raised at the meeting to be addressed.

11 Work Programme matrix – progress update

An update is attached. Changes from the previous update are in *italic* type

File ref: 3-CT-17-5

Recommendation:

That the 'Work programme matrix – progress update' to the Audit/Risk Committee meeting 27 June 2019 be received.

12 Actions to reduce risk- half-year update, 31 May 2019

An updated schedule is attached (together with the risk matrix).

File ref: 5-PY1-3

Recommendation:

That the updated schedule of 'Actions to reduce risk, 31 May 2019', to the Audit/Risk Committee meeting 27 June 2019 be received.

13 Internal Audit programme – progress

An update will be provide to the meeting.

File: 5-EX-2-6

Recommendation:

That the update 'Internal Audit programme – progress' to the Audit/Risk Committee meeting 27 June 2019 be received.

14 Plan for 2018/2019 audit (and results of interim audit)

The plan for the 2018/19 audit is attached. Chris Webby, Audit Director, will be in attendance to outline that and talk about the work done so far in the audit.

Recommendation:

That the 'Audit Plan Rangitikei District Council for the year ending 30 June 2019' to the Audit/Risk Committee meeting 27 June 2019 be received.

15 Strategic Risks – Further consideration

A report will be tabled at the meeting.

16 Late items

17 Future items for the agenda

18 Next meeting

29 August 2019, 9.00 am

19 Meeting closed

Attachment 1



Rangitikei District Council

Audit and Risk Committee Meeting

Minutes – Thursday 28 February 2019 – 9:00 a.m.

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Present:

Mr Craig O'Connell (Chair)
His Worship the Mayor, Andy Watson
Cr Nigel Belsham
Cr Dean McManaway
Cr Angus Gordon

In attendance:

Mr Ross McNeil, Chief Executive
Ms Debbie Perera, Audit Director (outgoing)
Mr Chris Webby, Audit Director (incoming)
Ms Jo Devine, Group Manager, Finance & Business Support
Mr Michael Hodder, Community & Regulatory Services Group Manager
Mr Hamish Waugh, Infrastructure Group Management
Ms Selena Anderson, Governance Administrator

1 Welcome

The meeting opened at 9.04am. The Chair welcomed everyone to the meeting.

2 Council prayer

Mr O'Connell read the Council Prayer.

3 Apologies

That the apology for lateness of Cr Gordon be received.

Cr McManaway / Cr Belsham. Carried

4 Members' conflict of interest

There were no conflicts of interest declared.

5 Confirmation of order of business

The order of business was confirmed.

There were no late items.

6 Confirmation of minutes

Resolved minute number	19/ARK/001	File Ref	3-CT-17-2
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That the Minutes of the Audit/Risk Committee meeting held on 29 November 2018 be taken as read and verified as an accurate and correct record of the meeting.

Cr Belsham / HWTM

Cr Gordon arrived 9.08am

7 Chair's report

The Chair did not have a report

The Chair acknowledged. Ms Perera for her contribution to the meetings and wished her well in her new role. Mr Webby will be taking over from Ms Perera.

8 Council decisions on recommendations from the Committee

There were no recommendations.

9 Questions put at previous meeting for advice or action

There were no questions raised at the meeting to be addressed.

10 Work Programme matrix – progress update

The Committee members discussed:

- Information Management – Currently in the process of recruiting an Information Services Team Leader.
- Potential liabilities of landfills in the Rangitikei District noting that a high-level assessment and a risk profile for all the landfills will need to be undertaken.
- PFAS – this will continue to be monitored.
- Review use of Multiproof approvals (for buildings)
- Economic Growth of the district and the housing shortage that could arise.
- Skills shortage – not only a district problem but that it is a nation wide problem.
- Flexibility of District Plan to allow residential and industrial growth.

Resolved minute number

19/ARK/002

File Ref

3-CT-17-5

That the Work programme matrix – progress update as at 28 February 2019 be received.

Cr McManaway / Cr Belsham

11 Internal Audit programme – progress

A report will be provided to the next Committee meeting

12 Strategic Risks – Further consideration

The previously suggested strategic risks for consideration by the Committee are:

- Reputation – driven by the speed and reach of social media
- Human capital – organisation depth and values
- Capital Programme
- Financial stability
- Cyber-security
- Legal and political environment
- Climate change
- Sustainability of the District

In discussion, the Committee identified workforce as a further area of strategic risk. Projected capital expenditure across the central North Island is substantial. Apart from local councils' work programmes, there is the road replacement for the Manawatu Gorge, the upgraded highway from Otaki to north of Levin, and the likely increased need for infrastructure of the Government housing programme accelerates (in the way it has done in the Bay of Plenty).

The ability for each council (including Rangitikei) to secure resources for major capital works is uncertain.

In addition, compliance costs were becoming too great for small contractors, meaning that there was increasing dependence on fewer very large contractors. This situation had potential to raise cost and/or delay work. Council could not assume the compliance responsibilities of contractors. Possible options included apprenticeships and requiring engagement of local sub-contractors as part of awarding a contract.

Undertaking

Provide a report analysing the identified strategic risks to the next Audit/Risk Committee meeting.

13 Update on the Government's review of the 3 waters infrastructure

The Committee noted the commentary in the agenda.

The Mayor and the Chief Executive had a meeting scheduled in mid-March with Internal Affairs officials. GHD is doing work on drinking water for the MW LASS councils.

The attention being given to coastal wastewater discharges is prompted by Auckland.

Mr Waugh noted a meeting with the Drinking-water Assessor on 27 February. While focussed on Manawatu District Council's appeal, the grounds were similar to Rangitikei. He felt that the matter was progressing well.

14 Late items

As agreed in item 5

15 Future items for the agenda

None

16 Next meeting

27 June 2019, 9.00 am

17 Meeting closed

10.15 am

Confirmed/Chair: _____

Date:

Unconfirmed

Attachment 2

AUDIT/RISK COMMITTEE - WORK PROGRAMME FOR THE 2016-19 TRIENNIUM

Topic	What	Why	Who/How	Priority	Committee decision/action	Progress to 14 June 2019
Annual Audit review	Interim management report (2017/18)	Ensure Council operating procedures and policies are appropriate and managed	Council management and Audit Director	Very high	Review Audit comment and Council response; recommendation to Council	Complete. The planned interim audit (second part) for 2017/18 in the first week of July was deferred (and shortened) because of the death of George McIrvine. Agreed no interim management report to be provided. Main audit commenced on 10 September. Adoption occurred on 11 October. Management report provided to Committee at its November 2018 meeting.
	Interim management report (2018/19)					Interim audit process has started.
Other reviews of Council operations		Ensure recommendations are well-founded and there is a robust plan of action	Chief Executive	Medium	As required. Consideration of interest-free loan to Edale was flagged once relevant information is received, but was not needed because of its purchase by the Masonic Villages Trust.	In progress. The NZTA Investment Audit conducted in October 2017 found Council's performance 'effective' except in safety performance. This was given profile in the Asset Management Plan and the 2018-28 Long Term Plan. The Audit management report on the Consultation Document for the 2018-28 Long Term Plan was considered at the Committee's June meeting; the Audit management report on the final adopted Long Term Plan was included in the Committee's August 2018 meeting agenda.
Natural disaster events	Annual insurance reviews	Ensure accurate, appropriate and cost-effective cover for all built assets	GM Finance & Business Support	Medium	Review periodic updates from GM (Finance and Business Support) Committee has already reviewed decision to cease membership of LAPP.	In progress. Considered as part of additional cover being secured through MW LASS.
	Business continuity	Ensure Council can maintain business operations	GM Finance & Business Support	High	Review periodic updates from GM (Finance and Business Support)	<i>This is an element in the Information Services Strategic Plan being developed</i> . Off-site storage of all servers has now been made secure.
	Disaster recovery	Ensure robust processes aligned with MCDEM requirements	Chief Executive	Very high	Review six-monthly updates on development of internal capability and external liaison, periodic MCDEM reviews, and recommend any changes or enhancements	In progress. Quarterly update on CDEM Improvement plans provided to Council's meetings in January, April, July 2018 and October. New improvement plan being developed to align with MCDEM strategic priorities.
	Areas of unstable ground	Ensure awareness where land and buildings may be at risk		Low	to be determined	

Topic	What	Why	Who/How	Priority	Committee decision/action	Progress to 14 June 2019
Community facilities	Bulls community centre	Ensure robust project management for construction and fit-out	Chief Executive	High	Review and comment on project plan and exception reporting to each meeting	In progress. High-level project plan reviewed at Council workshop, 31 May 2018. Formal consideration of tenders at Council on 30 August 2018. Final decision (to award contract) made on 15 November 2018. Project team meets weekly/fortnightly. <i>Audit review during July of the project in terms of its current status and Council's approach to the planning and delivery of the project.</i>
	Marton civic centre	a) Ensure cost-effective option for new Civic Centre design	Chief Executive	High	Review and comment on project plan and exception reporting to each meeting	In progress. High-level project plan reviewed at Council workshop, 31 May 2018. At its meeting on 13 December 2018, Council approved engaging WSP Opus to develop concept designs and finalising the project plan (to incorporate a community engagement phase) and completing the business case by September 2019 for a decision on the proposed civic centre. <i>A workshop outlining progress in developing the business plan was held with Elected Members in June 2019.</i>
		b) Ensure robust project management for construction and fit-out	Chief Executive	High	Review project plan and exception reporting to each meeting	Not yet started.
	Taihape community facilities (on Memorial Park) and community centre (town hall site)	a) Ensure Memorial Park facility has external funding and community support		High	Review and comment on project plan and exception reporting to each meeting. Workshop consideration, 15 November 2018; report to be prepared for Council's meeting on 29 November.	In progress. High-level project plan reviewed at Council workshop, 31 May 2018. After discussions with Park users and key stakeholders, a further report at Assets/Infrastructure Committee's July 2018 meeting and a public meeting in Taihape on 3 August. The Committee agreed to investigate costs for the grandstand to be fully functional (as well as strengthened) and to seek clarification from Clubs Taihape on its intentions. Further consideration at Council workshop with decision report approved at Council's meeting on 29 November 2018, to build a new amenities block on the site beside the No. 3 field. Discussion with Clubs Taihape (which intends to build a complementary facility nearby). Additional budget of \$600,000 included in draft 2019/20 Annual Plan. <i>Subsequently, further discussion with Clubs Taihape about a joint facility and a concept plan with staging scenarios is now under consideration.</i>

	b) Ensure cost-effective and community support for new Civic Centre design		High	Review project plan and exception reporting to each meeting	Not yet started.
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Topic	What	Why	Who/How		Committee decision/action	Progress to 14 June 2019
Risk management framework	Alignment with national/sector approach	Ensure framework reflects sector good practice	GM Community & Regulatory Services		Understand and give effect to Local Government Risk Agency expectations in the framework and follow-up actions	LGRA yet to be established.
	Biennial reviews	Ensure framework reflects changing risk environment	GM Community & Regulatory Services	Very high	Review proposed changes to framework and recommend to Council	Review due December 2019
	Half-year management actions to reduce risk	Ensure identified risks are being reduced	GM Community & Regulatory Services	High	Review adequacy of management action and recommend any changes to actions at August and February meetings	In progress. Proposed actions to address risk from December revision of the framework provided to Committee's February 2018 and June 2019 meeting.
Ongoing analysis of capital expenditure	Capacity	Ensure that the projected capital work programme is realistic (i.e. affordable and achievable)	GM Finance & Business Support	Very high	Review proposed capital programme at October or December meetings. Recommend changes to Council if warranted.	In progress. At its September 2017 the Committee considered a report on Council's involvement with the Local Government Funding Agency and recommended to Council that it participate in the Agency's scheme as a borrower. Council approved this recommendation. The capital programme for 2019/20 forecasted in the Long Term Plan was reviewed as part of the preparation for the 2019/20 Annual Plan.
	Consenting requirements and timelines	Ensure that consenting requirements are reflected in capital programme		High	Examine briefing on consenting requirements at October meetings	Complete. Works programmes included in the draft Long Term Plan have been timed as to consenting requirements including seeking interim consents for Marton and Ratana wastewater upgrades and allowing for full consideration of options and (at Ratana) fulfilment of funding commitments. Horizons has made explicit its expectations about the timing of applications to renew consents.
	Carry-overs	Ensure that carry-overs are minimised and validated against external factors.	GM Finance & Business Support and GM Infrastructure	Medium		In progress. Council approved carry-forwards from 2017/18 to 2018/19 (incorporated in the final Long Term Plan) totalling \$19,229,729. In addition, \$177,780 was approved additional to the Long Term Plan budgets. Carry-forwards from 2018/19 to 2019/20 were considered by Council's meeting on 28 February 2019 (and included in the draft Annual Plan); the final carry-forwards (for inclusion in the adopted 2019/20 Annual Plan) will be considered at Council's 27 June 2019 meeting.

Topic	What	Why	Who/How		Committee decision/action	Progress to 14 June 2019
Water supply	Drinking-water standards compliance	Ensure Council's potable water supplies address changes from Havelock North enquiry and government's timetable for implementing them	GM Infrastructure	Very high	Understand government policy setting; review project plan for giving effect to this and exception reporting to each meeting, and recommend Committee's view to Council.	In progress. Government's decisions on the Havelock North enquiry's recommendations not yet announced. Structural reform proposals from central government yet to be finalised, although Cabinet paper on scope/process released on 19 November. LGNZ has conducted a survey of territorial authority views and issued a position statement. At its meeting on 31 January 2019, Council approved development of Marton water strategy - this is not driven by compliance but issues with odour, colour and taste.
	Accurate billing for usage	Ensure that all water usage is paid for and that historical rights are correctly applied	GM Finance & Business Support	Medium	Review project plan and exception reporting to each meeting	Not yet considered.
Alignment with Council strategic framework and key priorities	Progress with key priorities (reported monthly to relevant Council committees)	Ensure that the identified key priorities are implemented or modified to give effect to the strategic direction	Chief Executive	High	Review draft consultation document for 2018-28 LTP at December 2017 meeting and determine whether risks and uncertainties have been adequately addressed.	Complete. Discussion at Committee's February 2018 meeting
Information management	Progress in implementing robust, integrated and accessible electronic corporate records systems	Ensure Council meets Public Records Act and LGOIMA requirements	GM Finance & Business Support	Medium	Review periodic updates on work programme and compliance with LGOIMA. There is currently no compliance reporting undertaken by Archives New Zealand	<i>This is an element in the Information Services Strategic Plan being developed.</i> Council engaged with the National Library's survey (opening 25 February 2019) to understand the extent to which the potential loss of local authority 'high value' digital content is considered a risk that could be mitigated by having access to national-level digital preservation services.
Infrastructure Shared Services (with Manawatu District Council)	Performance under revised agreement	Ensure Rangitikei is getting value for money and minimises risk of non-compliance in levels of service or funding of infrastructure	Chief Executive	Medium	Consider half-yearly assessments from Chief Executive and determine whether a recommendation to Council is warranted in terms of perceived risks	In progress. First quarterly update to Council's meeting on 29 March 2018. Principal Adviser Infrastructure started on 3 September 2018.
Appetite for risk around consents	Policy and procedure for exercise of discretion and enforcement of Code requirements	Ensure Council and local building sector are clear on balance between compliance and discretion	Chief Executive	Medium	Consider periodic updates from Chief Executive and determine whether a recommendation to Council is warranted in terms of perceived risks	Complete. Further consideration of issue on Committee's February 2018 meeting agenda. Approach considered and endorsed at Council's 1 March 2018 meeting. Subsequent notification of approach to local builders/building service providers. Enforcement strategy (and prosecution policy) adopted by Council on 26 April 2018; a report back on its effect due with Council's 29 November 2018 meeting.

Topic	What	Why	Who/How		Committee decision/action	Progress to 14 June 2019
Infrastructure inspection regimes	Condition reporting reflects age, maintenance and incidents	Ensure that asset condition reporting is comprehensive, is reviewed against inspections, and is reflected in capital/renewal programmes	GM Infrastructure	High	Review draft infrastructure strategy at October 2017 meeting and make recommendation to Council on adequacy of risk assessment	In progress. Draft strategy (combined infrastructure and financial) as provided to Audit included in Committee's February 2018 meeting agenda. However, there is uncertainty about the basis for the condition assessment reporting which needs to be resolved.

Attachment 3

Actions from risk management framework (revised December 2017)

These actions address those situations where Council's Audit/Risk Committee, having considered the present systems and processes, has not accepted the assessed risk. The level of risk (e.g. 'D5') and assessment of effectiveness of controls (e.g. '3') are those shown in the risk management framework and explained in the risk matrix (attached).

The first half-yearly evaluation was done in June 2018. The framework is due for revision by December 2019.

		What will be done?	Progress to 31 May 2019
	Governance		
1.6	<p>Pursuing inappropriate business strategies</p> <p>Dec 2017: D5 2</p> <p>June 2018: D5...2</p> <p>Nov 2018: D5 2</p> <p>June 2018....D5 2</p>	Development of a policy framework to define when a business case approach for projects will be adopted. ¹	<p>A policy framework has yet to be determined.</p> <p>However, the approach is being adopted for major community infrastructure projects where there are options which need consideration. It was the basis for evaluating the need for a replacement Mangaweka Bridge. A business case is being developed for the proposed relocation of the Marton administration and library functions into the CBD area.</p>
1.7	<p>Needs of stakeholders are not met</p> <p>Dec 2017: C2 3</p> <p>June 2018: C2 3</p> <p>Nov 2018: C2 3</p> <p>June 2018: C2 3</p>	Clear use of survey results in terms of changes to services and facilities and reporting these back to stakeholders	<p>Survey released in May 2018; results were analysed and improvement plans prepared (in conjunction with activity managers), provided to the relevant Council committee, with monitoring reports due in March 2019.</p> <p>A similar approach is being taken for the 2019 survey.</p>
1.10	<p>Ineffective Council leadership</p> <p>Dec 2017: D4 3</p> <p>June 2018: D4 3</p> <p>Nov 2018: D4 3</p> <p>June 2018: D4 3</p>	Development of agreed guidelines with Council on protocols to achieve a more effective governance-management balance with greater focus on understanding and addressing strategic risks	<p>No formal discussion yet with Council.</p> <p>The Audit/Risk Committee has started a process of identifying strategic risks, which, once formalised, would be recommended to Council for consideration, prior to the revision of the risk management framework.</p>

¹ Not necessarily a dollar sum. Note that the business case is an input into a decision - **not** the decision

	Business risks		
2.1	<p>Customer service eroded</p> <p>Dec 2017: C3 4 June 2018: C3 4 Nov 2018: B3 4 June 2018: B3 4</p>	<p>Monthly analysis for management of issues in service request.</p> <p>Customer service philosophy to be made explicit across the organisation</p> <p>Greater focus on getting feedback on specific transactions and analysing this</p>	<p>Formal training for every staff member arranged (with an external provider) in July and new service charter developed and circulated.</p> <p>The staff survey in March-April 2019 showed a positive understanding of the impact Council has on the community.</p>
2.2	<p>Exposure to Council following poor tender process</p> <p>Dec 2017: D4 4 June 2018: D4 4 Nov 2018: D4 4 June 2018: D4 4</p>	<p>Review the procurement policy, potentially including:</p> <p>a) Mandatory use of local Tenderlink for all purchase with a total estimated cost exceeding \$50,000.</p> <p>b) Review by Management Team of recommendations for tenders under \$250,000 prior to decision by Chief Executive.</p> <p>c) Full disclosure of tender processes in public excluded sessions of Council, prior to decision, for tenders over \$250,000.</p>	<p>Proposed revision considered (in Council workshop) on 20 September 2018. Policy changes yet to be formalised, but (c) has been implemented.</p>
2.3	<p>Exposure to Council following poor contract management processes</p> <p>Dec 2017: D4 2 June 2018: D4 2 Nov 2018: D4 2 June 2018: D4 2</p>	<p>Develop and adopt policy for contract management</p> <p>Monthly reporting of performance of contracts with annual value exceeding \$250,000 to the relevant Council Committee.</p>	<p>Draft policy yet to be considered.</p>
2.6	<p>Inability to recover/continue business following disaster</p> <p>Dec 2017: D4 1 June 2018: C2 3 Nov 2018: C2 3 June 2018: C2 3</p>	<p>Develop a business continuity plan (to include consideration of both Taihape and Manawatu as alternative admin centres)</p> <p>Implement Civil Defence Improvement Plan (prepared in 2017)</p>	<p>Offsite business continuity in place.</p> <p>Civil defence Improvement Plan implemented – quarterly reporting to Council</p> <p>Initial EOC training provided to all staff</p>

2.7	<p>Relationship with Maori deteriorate</p> <p>Dec 2017: D4 3 June 2018: D3 3 Nov 2018: C2 4 June 2018: C2 4</p>	<p>Advance the Maori responsiveness framework</p> <p>Respond (as far as practicable) to Te Roopu Ahi Kaa's preferences for the proposed Maori/Iwi Liaison Officer role</p> <p><i>Progress specific MoUs</i></p>	<p>Maori responsiveness framework agreed by Te Roopu Ahi Kaa and Council. This has been formally monitored on a quarterly basis.</p> <p>A half-time Strategic Adviser – Iwi/hapū position established, with appointee starting on 11 June.</p> <p>Draft MoUs with Nga Wairiki-Ngati Apa and Ratana Communal Board of Trustees under discussion</p>
2.8	<p>Resource base does not meet community needs</p> <p>Dec 2017: E2 3 June 2018: E2 3 Nov 2018: E2 3 June 2018: E2 3</p>	<p>Continued lobbying (to central government and LGNZ) for ongoing, adequate financial support for roading, utilities and community infrastructure.</p>	<p>Ongoing</p> <p>A series of discussions has been initiated by the Mayor and the Chief Executive with key Ministers, in particular over accessing support from the Provincial Growth Fund Lottery grants, EQUP grants, and maintaining the Taihape-Napier Road.</p> <p>In addition, there has been collaboration with other MW LASS councils over research into the most effective ways to manage the 3 waters in the region.</p>
2.9	<p>Business objectives not met</p> <p>Dec 2017: D3 2 June 2018: D3 2 Nov 2018: D3 2 June 2018: D3 2</p>	<p>Monthly monitoring by Management Team of progress with the capital programme.</p>	<p>Ongoing</p> <p>Early recognition of the need to carry-forward a substantial part of the capital programme in both utilities and community infrastructure</p>
2.11	<p>Shared Services falters and/or leads to higher costs for equivalent services</p> <p>Dec 2017: D4 3 June 2018: D3 4 Nov 2018: D3 4 June 2018: D3 4</p>	<p>Negotiate and monitor a more rigorous agreement with Manawatu for the delivery of infrastructure services to Rangitikei.</p>	<p>Ongoing</p> <p>Quarterly reviews (first at Finance/Performance Committee, 29 March 2018). This comprehensive review (based on a new agreement), with input from senior managers as well as Manawātū, increases confidence that the relationship is robust.</p> <p>A comprehensive review has been prepared of the current arrangements but has been held over pending announcement from the Government on its proposals for managing the 3 waters</p>

2.12	<p>Exposure to Council following non-compliance in consent processes.</p> <p>Dec 2017: D4 3 June 2018: D4 3 Nov 2018: D4 3 June 2018: D4 3</p>	<p>Review processes for monitoring drinking-water standard compliance and ensure full adherence to these.</p>	<p><i>To be determined following government decisions on Havelock North Inquiry.²</i></p>
Built assets			
4.1b	<p>Inability to provide services to stakeholders following damage to assets – by earthquakes</p> <p>Dec 2017: D8 0 June 2018: D8...0 Nov 2018: D8 0 June 2018: D8 0</p>	<p>Get clarity on meeting IL4 requirements for Emergency Operations Centres – and requirements for places of public assembly</p>	<p>Ongoing</p> <p>GHD commissioned, January 2018. Report received October 2018. Rough order of costs is \$325,000 for the Administration Building and \$98,000 for the Assets Building (but this would be less adequate, given its layout and distance from the emergency generator).</p> <p>Planning for relocation of Marton Administration building includes standalone IL4 building.</p> <p>Negotiations continue with Whanganui Area Health Board about having the Taihape Hospital function as a local EOC for the north of the District.</p>
Human resources			
5.1	<p>Breach of health and safety requirements</p> <p>Dec 2017: D4 4 June 2018: D4 4 Nov 2018: D4 4 June 2018: D4 4</p>	<p>Give effect to changes recommended as part of the ACC tertiary accreditation process and the audit undertaken by MW LASS</p>	<p>Ongoing</p> <p>SafePlus self-assessment tool became available mid-2018. Informal audit by MW LASS considered processes and practices satisfactory. Note special focus on (i) driver safety and (ii) asbestos management plans and actions arising from these.</p> <p>Working Wise undertook an assessment of all member MW LASS councils in December 2018. A Rangitikei was seen as performing in 8 or the 9 aspects examined: a development plan is being implemented, to improve due diligence, acknowledge positive staff engagement, formulate specific goals and measures, and provide more information to the senior management team and to Council.</p>

² Use monthly compliance reporting as basis of discussion with Mid central health Drinking-water assessor

5.3	<p>Poor employee performance</p> <p>Dec 2017: C3 4</p> <p>June 2018: C3 4</p> <p>Nov 2018: C3 4</p> <p>June 2018: C3 4</p>	<p>Ensure Continuous Improvement process helps employees understand impact of individual performance on others and the organisation as a whole – i.e. personal; accountability for actions and their consequences.</p>	<p>Ongoing</p> <p>The survey of all staff in March-April 2019 showed organisational culture as an area of particular strength with acknowledgement that individual performance targets were aligned with Council's objectives. Performance development, project management and resourcing (including technology) identified as areas for improvement. An action plan is being progressed</p>
5.6	<p>Loss of corporate or tacit knowledge</p> <p>Dec 2017: D3 2</p> <p>June 2018: D3 3</p> <p>Nov 2018: D3 3</p> <p>June 2018: D3 3</p>	<p>Implement Promapp which provides comprehensive documentation about 'how' things are done</p> <p>Use MW LASS to develop and apply shared expertise in specialised areas</p>	<p>Ongoing</p> <p>Reporting through Corporate Management Team</p> <p>Ongoing</p>
Information systems			
6.1	<p>Poor information management</p> <p>Dec 2017: D4 2</p> <p>June 2018: D4 2</p> <p>Nov 2018: D4 2</p> <p>June 2018: D4 2</p>	<p>Ensure full documentation in SharePoint of contracts and projects undertaken by Infrastructure Shared Services.³</p> <p>Assess feasibility of replacing NCS/MagiQ to gain greater functionality and integration with SharePoint.</p>	<p>Ongoing</p> <p>Information Services Strategic Plan (postponed until new GM Finance & Business Support appointed) is being refreshed, and staff engagement will start in July.</p> <p>Use of SharePoint a specific topic in the new Shared Services agreement.</p> <p>Accessibility of pre-SharePoint files evaluated.</p> <p>Consideration was being given to a replacement of NCS/MagiQ shared with other MW LASS councils. However, a closer look is also now being given to MagiQ's functionality</p>
Financial management			
7.3	<p>Financial exposure in the event of a loss or disaster</p> <p>Dec 2017: D7 3</p> <p>June 2018: D6 3</p> <p>Nov 2018: D6 3</p> <p>June 2018: D6 3</p>	<p>Adopt strategies to bridge gap between insurance (underground assets and roading)</p>	<p>Ongoing</p> <p>Priority task for the Principal Advisor Infrastructure</p>

³ This is part of the agreement negotiated with Manawatu District Council – 2.11. A related issue is access to the roading RAMM database.

	Natural resources and hazards		
8.3	<p>Insufficient regard to risks posed by earthquake-prone buildings</p> <p>Dec 2017: C3 3 June 2018: C3 3 Nov 2018: C3 4 June 2018: C3 4</p>	<p>Undertake mandatory assessment of all earthquake-prone buildings (including Council's)</p> <p>Ensure staff and public awareness of risks posed by Council's own buildings</p>	<p>Focus remains on obtaining new, purpose-built and safe replacements for premises regularly used by staff and the community. Most Utilities plants have been assessed with remedial action taken/planned.</p> <p>Building team has been undertaking the initial visual inspections of buildings, initially in the Marton CBD (including the Council's buildings) and advising owners of the outcome. Progress has been slower because of the increasing number of consents and the need to prepare for and engage with the biennial IANZ accreditation and an MBIE review of building warrants of fitness and pool inspection processes.</p>

21 June 2019

Attachment 4

Audit plan

Rangitikei District Council

For the year ending 30 June 2019

Audit plan

I am pleased to present our Audit Plan for the audit of Rangitikei District Council (the Council) for the year ending 30 June 2019. The purpose of this audit plan is to discuss:

Audit risks and issues	2
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Reporting protocols	11
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Expectations.....	14

The contents of this plan should provide a good basis for discussion when we meet with you.

We will be happy to elaborate further on the matters raised in this plan.

Our work improves the performance of, and the public's trust in, the public sector. Our role as your auditor is to give an independent opinion on the financial statements and performance information. We also recommend improvements to the internal controls relevant to the audit.

If there are additional matters that you think we should include, or any matters requiring clarification, please discuss these with me.

Yours sincerely



Chris Webby
Appointed Auditor
20 June 2019

Audit risks and issues

Focus areas



Based on the planning work and discussions that we have completed to date, we set out in the table below the main audit risks and issues. These will be the main focus areas during the audit.

Audit risk/issue	Our audit response
Bulls Community Centre	
<p>Development of the Bulls Community Centre commenced during the financial year and is expected to be completed in the next financial year.</p> <p>This is a significant project for the Council (both reputational and financial) so it is important that the Council has a robust business plan in place and follows good practice in the areas of contract and project management. This is especially important given this project is the first in a series of significant builds planned as part of the Council's 2018-28 Long-Term Plan.</p> <p>The Council is continuing to fundraise for the cost of the project through grants and donations. There is judgement required in particular to when to recognise a grant as revenue and the amount. The accounting treatment of each grant is dependent on the conditions or milestones included in the agreement. For example if the Council received a grant with no conditions attached, then the Council would need to recognise the grant revenue once the agreement has been signed.</p>	<p>We will engage our specialist audit assurance services team to review key aspects of the project including procurement, contract management and project management. Our findings will be reported back in the final Report to Council.</p> <p>We will also test the accounting treatment of:</p> <ul style="list-style-type: none"> the costs related to the project; and the revenue received to fundraise the project.
Roading valuations	
<p>The accounting standard PBE IPSAS 17, Property, Plant and Equipment, requires valuations to be conducted with sufficient regularity to ensure that the carrying amount does not differ materially from fair value.</p> <p>The roading asset class was last revalued to fair value at 1 July 2016. The Council uses the depreciated replacement cost methodology to determine fair value. The valuation is based on a number of significant assumptions, including the useful lives and costs of the assets. The high level</p>	<p>We will review that the Council has correctly accounted for the revaluation of the roading asset class. This will include ensuring:</p> <ul style="list-style-type: none"> assess relevant controls that management has put in place for the valuation; obtain an understanding of the underlying data; evaluate the qualifications, competence and expertise of the external peer review valuer used;

Audit risk/issue	Our audit response
<p>of estimation uncertainty resulting from the need to apply these assumptions in the valuation creates a risk that the value is materially misstated.</p> <p>The previous revaluations for roading assets resulted a net valuation decrement of \$17.495 million being expensed through the profit and loss. This means that any valuation increase for roading assets will go through the profit and loss up until the previous decrements are reversed (\$17.495 million).</p> <p>Our materiality for revaluation movements through the profit and loss is significantly lower than for movements that go through the other comprehensive revenue and expense. The roading asset carrying amount is large, so anything above a 0.3% increase in the carrying value would be regarded as material movement to profit or loss. It is extremely unlikely that the value of roading assets has not increased by more than this amount given increases in input costs since the last revaluation.</p> <p>We have discussed with management the need to revalue roading as at 30 June 2019.</p> <p>It is probable there could be changes to the prior year financial statements as a result of a revaluation not being performed as at 30 June 2017 and 30 June 2018. If there is a prior period error, then appropriate adjustments and disclosures will need to be made in line with PBE IPSAS 3.</p>	<ul style="list-style-type: none"> review the method of valuing the roading assets and assess if the applicable method used is in line with the financial reporting framework, including the reasonableness of the assumptions used; and the appropriate accounting entries have been made. <p>If changes are required to the prior year financial statements, we will consult with our professional practice group and ensure the appropriate adjustments and disclosures have been made.</p>
Fair value assessment of assets – infrastructure assets (excluding roading) and land and buildings	
<p>Infrastructural assets and other revalued assets need to be revalued with sufficient regularity to ensure that the carrying amount does not differ materially from fair value. The relevant accounting standard is PBE IPSAS 17, <i>Property, Plant and Equipment</i>.</p> <p>The Council revalues its property, plant and equipment on a three yearly cycle.</p> <p>In a non-revaluation year the Council must consider whether there has been any significant movement in fair value of the assets.</p>	<p>We will for those assets that are not revalued, review the robustness of management's assessments as to why there is no material difference between the fair value and the carrying value of those assets.</p> <p>Where revaluations are undertaken (if the assessment requires them), we will review that the Council has correctly accounted for the revaluation of those asset classes. This will include ensuring:</p> <ul style="list-style-type: none"> the underlying assumptions are consistent with the Council's management and knowledge of the assets;

Audit risk/issue	Our audit response
<p>The last full revaluation cycle was 1 July 2016.</p> <p>We expect that the Council will have done a comprehensive analysis to determine whether there is a significant variance between the fair value as at 30 June 2019 and the carrying value that would trigger the need for the Council to revalue or impair the land and building and infrastructure assets.</p> <p>We understand Council is planning on revaluing infrastructural assets (excluding roading) as at 1 July 2019 and will perform the fair value assessment for this year from that valuation. This assessment is not likely to be available for audit until August. There is a risk that should this fair value assessment require a revaluation as at 30 June 2019, we will not have the resources to complete the work in line with the proposed adoption timeline.</p>	<ul style="list-style-type: none"> • relevant valuation and accounting standards have been complied with (in particular PBE IPSAS 17 Property, Plant and Equipment); and • the appropriate accounting entries have been made.
Impairment assessment of Plant, Property and Equipment	
<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 District Council must review its property, plant and equipment for impairment indicators.</p> <p>We expect that the value of work in progress (WIP) on projects that span an extended period of time to be assessed for impairment regularly over the period of the project.</p>	<p>We will review the Council's impairment assessments of its plant property and equipment.</p>
The risk of management override of internal controls	
<p>There is an inherent risk in every organisation of fraud resulting from management override of internal controls. Management are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Auditing standards require us to treat this as a risk on every audit.</p>	<p>Our audit response to this risk includes:</p> <ul style="list-style-type: none"> • testing the appropriateness of selected journal entries; • reviewing accounting estimates for indications of bias; and • evaluating any unusual or one-off transactions, including those with related parties.

Please tell us about any additional matters we should consider, or any specific risks that we have not covered. Additional risks may also emerge during the audit. These risks will be factored into our audit response and our reporting to you.

Fraud risk

Misstatements in the financial statements and performance information can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action is intentional or unintentional. In considering fraud risk, two types of intentional misstatements are relevant – misstatements resulting from fraudulent reporting, and misstatements resulting from misappropriation of assets.

The primary responsibility for the prevention and detection of fraud and error rests with the Council, with assistance from management. In this regard, we discuss the following questions with you:

- What role does Council play in relation to fraud? How do you monitor management's exercise of its responsibilities?
- Has a robust fraud risk assessment been completed? If so, is the Council satisfied that it had appropriate input into this process?
- How does management provide assurance that appropriate internal controls to address fraud risks are in place and operating?
- What protocols/procedures have been established between the Council and management to keep you informed of instances of fraud, either actual, suspected, or alleged?
- Are you aware of any actual, suspected, or alleged fraud? If so, have the results of management's investigation been reported to Council? Has appropriate action been taken on any lessons learned?

Our responsibility

Our responsibility is to obtain reasonable, but not absolute, assurance that the financial statements and performance information are free from material misstatement resulting from fraud. Our approach to obtaining this assurance is to:

- identify fraud risk factors and evaluate areas of potential risk of material misstatement;
- evaluate the effectiveness of internal controls in mitigating the risks;
- perform substantive audit procedures; and
- remain alert for indications of potential fraud in evaluating audit evidence.

The Auditor-General has published useful information on fraud that can be found at oag.govt.nz/reports/fraud-reports.

Wrongdoing including bribery and corruption

The Finance and Expenditure Committee has expressed an interest in understanding whether the public sector has effective corruption prevention and detection processes in place.

As part of its response to the Committee, the Office of the Auditor-General has asked auditors to undertake some work for all public entities to better understand the controls in place in public entities to reduce the risk of wrongdoing, particularly bribery and corruption.

In this regard, we will discuss the following questions with you:

- Is there an appropriate code of conduct or ethical guidelines that encompasses bribery and corruption?
- Has the Council undertaken an effective risk assessment to identify where it is most at risk for bribery and corruption?
- How does the Council make the appropriate policies and guidelines related to bribery and corruption available to staff?
- How does the Council ensure all staff are aware of the policies and guidelines related to bribery and corruption?
- How does the Council provide additional training and support to staff in key positions that could be susceptible to bribery and corruption (either inbound or outbound)?
- What mitigations and controls been put in place to reduce the risk of bribery and corruption?
- Who is responsible for maintaining adequate internal controls over bribery and corruption?
- Is there a process for staff involved in high risk roles (procurement, grants, funding processes, issuing permits or consents, conferring benefits, or punishments) to declare any possible bribery or corruption?
- What mechanisms are there for handling instances of attempted bribery and corruption?
- What mechanisms are in place to notify and deal with breaches of the policies relating to bribery and corruption?
- Are senior management and the governing body (i.e. the Chief Executive) interested, well informed and committed to mitigating the risks of bribery and corruption?
- How do management and the governing body (i.e. the Chief Executive) monitor the controls in relation bribery and corruption?
- How do management and the governing body (i.e. the Chief Executive) ensure the controls in relation bribery and corruption are adequate?

Our audit process

Initial planning

Initial planning activities include verifying compliance with independence requirements and building the audit team.

Understand your business and environment

We use our extensive sector and business knowledge to make sure we have a broad and deep understanding of the Council, your business, and the environment you operate in.

Assess audit risk

We use our knowledge of the business, the sector and the environment to identify and assess the risks that could lead to a material misstatement in the financial statements and performance information.

Evaluate internal controls

We update our understanding of internal controls relevant to the audit. This includes reviewing the control environment, risk assessment process, and relevant aspects of information systems controls. Most of this work is done during the initial audit visits. We evaluate internal controls relevant to the audit for the whole financial year, so we consider internal controls relevant to the audit at all visits.

Finalise the audit approach

We use the results of the internal control evaluation to determine how much we can rely on the information produced from your systems during our final audit.

Gather audit evidence

During the final audit we will be auditing the balances, disclosures, and other information included in the Council's financial statements and performance information.

Conclude and report

We will issue our audit report on the financial statements and performance information. We will also report to the Council covering any relevant matters that come to our attention.

Enhancing year-end processes

The year-end financial statement close process and the preparation of the annual report requires a large number of resources to be committed to complete it effectively. This diverts the attention of your staff away from the current financial year and focuses them on past events. We want the audit process run to smoothly and we will work with management to achieve this through the use of a bringing forward the timing of audit procedures.

Bringing forward audit procedures

Substantive audit procedures are traditionally performed after the year-end. Where possible, we will aim to bring audit procedures earlier in the year. At this stage we will focus on reviewing the fair value assessment for revalued property, plant and equipment (if they are available), review of pro-forma accounts and testing year-to-date data for material service performance measures. Completion of these tests earlier in the year should allow for more timely identification and resolution of errors.

This testing will be completed in June 2019. If we can complete this work earlier in the year, we expect this to reduce the final audit. This requires us to have the right information available during this visit to enable us to complete this work.

We will work with management to facilitate getting the information required at the right time. We will communicate with management if information is not available as agreed, including any impact on the year-end audit.

Materiality

In performing our audit, we apply the concept of materiality. In the public sector, materiality refers to something that if omitted, misstated, or obscured could reasonably be expected to:

- influence readers' overall understanding of the financial statements and performance information; and
- influence readers in making decisions about the stewardship and allocation of resources, or assessing your performance.

This definition of materiality is broader than the one used in the private sector.

Accounting standards also require the Council and management to consider materiality in preparing the financial statements. IFRS Practice Statement 2, *Making Materiality Judgments*, provides guidance on how to make materiality judgments from a financial statements preparer's perspective. Although this guidance is primarily aimed at for-profit entities, the same principles can be applied by public benefit entities.

Whether information is material is a matter of judgement. We consider the nature and size of each item judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor. Materiality will be lower for some items due to their sensitivity.

Misstatements

Misstatements are differences in, or omissions of, amounts and disclosures that may affect a reader's overall understanding of your financial statements and performance information. 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, other than those that are clearly trivial. Where management does not wish to correct a misstatement we will seek written representations from representatives of the Council that specify the reasons why the corrections will not be made.

Professional judgement and professional scepticism

Many of the issues that arise in an audit, particularly those involving valuations or assumptions about the future, involve estimates. Estimates are inevitably based on imperfect knowledge or dependent on future events. Many financial statement items involve subjective decisions or a degree of uncertainty. There is an inherent level of uncertainty which cannot be eliminated. These are areas where we must use our experience and skill to reach an opinion on the financial statements and performance information.

The term "opinion" reflects the fact that professional judgement is involved. Our audit report is not a guarantee but rather reflects our professional judgement based on work performed in accordance with established standards.

Auditing standards require us to maintain professional scepticism throughout the audit. Professional scepticism is an attitude that includes a questioning mind and a critical assessment of audit evidence. Professional scepticism is fundamentally a mind-set. A sceptical mind-set drives us to adopt a questioning approach when considering information and in forming conclusions.

Exercising professional scepticism means that we will not accept everything we are told at face value. We will ask you and management to provide evidence to support what you tell us. We will also challenge your judgements and assumptions and weigh them against alternative possibilities.

How we consider compliance with laws and regulations

As part of the Auditor-General's mandate, we consider compliance with laws and regulations that directly affect your financial statements or general accountability. Our audit does not cover all of your requirements to comply with laws and regulations.

Our approach involves first assessing the systems and procedures that you have in place to monitor and manage compliance with laws and regulations relevant to the audit. We may also complete our own checklists. In addition, we will ask you about any non-compliance with laws and regulations that you are aware of. We will evaluate the effect of any such non-compliance on our audit.

Wider public sector considerations

A public sector audit also examines whether:

- the Council carries out its activities effectively and efficiently;
- waste is occurring or likely to occur as a result of any act or failure to act by the Council;
- there is any sign or appearance of a lack of probity as a result of any act or omission by the Council or by one or more of its members, office holders, or employees; and
- there is any sign or appearance of a lack of financial prudence as a result of any act or omission by the Council or by one or more of its members, office holders, or employees.

Reporting protocols

Communication with management and the Council



We will meet with management and the Council throughout the audit. We will maintain ongoing, proactive discussion of issues as and when they arise to ensure there are “no surprises”.

Reports to Council



We will provide a draft of all reports to Council and 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 Council.

We will also follow up on your progress in responding to our previous recommendations.

Audit logistics

Our team



Our engagement team is selected to ensure that we have the right subject matter expertise and sector knowledge. Each member of the audit team has received tailored training to develop their expertise.

Our senior audit team members are:

Chris Webby	Appointed Auditor
Scott Tobin*	Engagement Quality Control Review Director
Fiona Elkington	Audit Manager
Yui-teng Chan	Audit Supervisor

*The Engagement Quality Control Review (EQCR) Director forms an important part of our internal quality assurance process to maintain and enhance the quality of your audit. The EQCR Director is an experienced Audit Director who has sufficient and appropriate experience to objectively evaluate the judgements made by the audit team. They are independent from the day to day audit field work, and so can provide an independent challenge to the audit team on their judgements. The EQCR will work with your Appointed Auditor and the audit team, but will not have direct contact with you.

Timetable



Our proposed timetable is:

Interim audit took place.	8 April 2019
Draft Interim Management report to Council issued.	20 June 2019
Pro-forma Accounts sent to audit for review.	26 August 2019
Land and Building Fair value assessment.	16 August 2019
Infrastructure (excluding roading) fair value assessment.	16 August 2019
Underlying SSP data Testing.	24 June 2019
Roading valuation.	16 August 2019
Draft financial statements/ Statement of Service Performance available for audit (including notes to the financial statements) with actual year-end figures and variance explanations.	26 August 2019

Draft Annual report available, including any Chair and Chief Executive's overview or reports.	26 August 2019
Final audit begins.	2 September 2019
Final financial statements available, incorporating all the amendments agreed to between us.	23 September 2019
Verbal audit clearance given.	3 October 2019
Audit opinion issued.	10 October 2019
Draft final detailed management report issued.	10 October 2019

Client Substantiation File

When you are fully prepared for an audit it helps to make sure that we can complete the audit efficiently and effectively. We have produced an updated substantiation file which, when completed will support the financial statements submitted for audit. This is essentially a tool box to help you collate documentation that the auditor will ask for. Your auditor will use this as audit evidence. Completing this file will also help you answer questions that your auditor may have. This information can also help your auditor to understand your business better and help us to plan the audit.

Please see link to Audit New Zealand's client substantiation file.

<https://www.auditnz.govt.nz/publications-resources/csf>

Expectations



For the audit process to go smoothly for both you and us, there are expectations that each of us need to meet.

Our respective responsibilities are set out in our audit engagement letter.

We expect that:

- you will provide us with access to all relevant records and provide information in a timely manner;
- staff will provide an appropriate level of assistance;
- the draft financial statements, including all relevant disclosures, will be available in accordance with the agreed timetable;
- management will make available a detailed workpaper file supporting the information in the financial statements; and
- the annual report, financial statements and performance information will be subjected to appropriate levels of quality review before being provided to us.

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.



Health and safety



The Auditor-General and Audit New Zealand take seriously their responsibility to provide a safe working environment for audit staff.

Under the Health and Safety at Work Act 2015, we need to make arrangements with management to keep our audit staff safe while they are working at your premises.

We expect you to provide a work environment for our audit staff that minimises or, where possible, eliminates risks to their health and safety. This includes providing adequate lighting and ventilation, suitable desks and chairs, and safety equipment where required. We also expect management to provide them with all information or training necessary to protect them from any risks they may be exposed to at your premises. This includes advising them of emergency evacuation procedures and how to report any health and safety issues.