

Audit and Risk Committee Agenda

Date: Wednesday, 27 September, 2017

Time: 9:00 am

Location: Council Chamber
Forum North, Rust Avenue
Whangarei

Elected Members: Cr Sharon Morgan (Chairperson)
Her Worship the Mayor Sheryl Mai
Cr Crichton Christie
Cr Shelley Deeming
Cr Sue Glen
Cr Cherry Hermon
Cr Greg Innes

For any queries regarding this meeting please contact
the Whangarei District Council on (09) 430-4200.

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Audit and Risk Committee – Terms of Reference

Membership

Chairperson:	Councillor Sharon Morgan
Members:	Her Worship the Mayor Sheryl Mai Councillors Crichton Christie, Shelley Deeming, Sue Glen, Cherry Hermon, Greg Innes
Meetings:	Quarterly.
Quorum:	4

Purpose

To oversee risk management and internal control, audit functions (internal and external), financial and other external corporate reporting, governance framework and compliance with legislation.

Key responsibilities include:

- Audit
 - Agree audit scope with Management
 - Provide direct input on audit scope to the external auditor
 - Consider audit management report, taking appropriate action
 - Consider any internal audit needs, including probity, waste and performance
 - Hold a confidential meeting with the external auditors at least once every year.
- Risk
 - Ensure a comprehensive risk management framework is in place and being operated effectively
 - Identify and monitor risks for the organisation including major projects
 - Ensure Council's assets are insured appropriately.
- Ensure Council has suitable business continuity arrangements in place.
- Policy review program.
- Service delivery review program.

Delegations

- (i) All powers necessary to perform the committee's responsibilities, including:
 - (a) establishment of working parties or steering groups.

3.1 Minutes: Audit and Risk Committee

. Wednesday 28 June 2017

Minutes of a meeting of the Audit and Risk Committee held in the Council Chamber Forum North on Wednesday 28 June 2017 at 9.00am

Present:

Cr Sharon Morgan (Chairperson)

Her Worship the Mayor Sheryl Mai, Crs Crichton Christie, Shelley Deeming, Sue Glen, Cherry Hermon and Greg Innes

Also present:

Cr Stu Bell, Athol Graham (Audit New Zealand) and Adelle Allbon (BDO Northland)

In Attendance:

Chief Executive (Rob Forlong), General Manager Corporate (Alan Adcock), Financial Controller (Rich Kerr) and Senior Meeting Co ordinator (C Brindle)

1. Confirmation of minutes of a Meeting of the Audit and Risk Committee held on held on 29 March 2017

Moved: Cr Innes

Seconded: Cr Deeming

“That the minutes of the Audit and Risk Committee meeting held on Wednesday 29 March 2017, having been circulated, be taken as read and now confirmed and adopted as a true and correct record of proceedings of that meeting.”

CARRIED

2. Internal Audit Report – Discretionary Spending (Sensitive Expenditure)

Moved Cr Deeming

Seconded Cr Hermon

“That the Audit and Risk Committee notes the findings of the Internal Auditor’s Report on Council’s discretionary spending.”

CARRIED

3. Appointment of the Independent Adviser to the Audit and Risk Committee

Moved Cr Hermon

Seconded Her Worship the Mayor

“That the Audit and Risk Committee notes the recruitment process and subsequent appointment of Mr. Philip Jones as the committee’s Independent Adviser.”

CARRIED

4. Health and Safety

Moved Cr Glen
Seconded Cr Hermon

"That the Audit and Risk Committee notes the report and the top 10 health and safety risks."

CARRIED

5. Financial Management Activity Update Report

Moved Cr Deeming
Seconded Cr Innes

"That the Audit and Risk Committee notes the financial management activity over the previous three months."

CARRIED

6. Key Risk Report

Moved Cr Hermon
Seconded Cr Innes

"That the Audit and Risk Committee notes the identified risks for the Whangarei District Council and their mitigation strategies."

CARRIED

7. Service Delivery Review Update

Moved: Her Worship the Mayor
Seconded Cr Deeming

"That the Audit and Risk Committee;

- a) Notes the progress with the Service Delivery Review programme.
- b) Notes that as the programme is due for completion in August, a final wrap up report will be presented to the September Audit and Risk Committee."

CARRIED

The meeting closed at 9.58am

Confirmed this 27th day of September 2017

Sharon Morgan (Chairperson)

4.1 Service Delivery Reviews – Final Report

Meeting: Audit and Risk Committee
Date of meeting: 27 September 2017
Reporting officer: Jason Marris (Manager Democracy and Assurance)

1 Purpose

To provide the final report to the committee on the Service Delivery Review programme.

2 Recommendation

That the Audit and Risk Committee;

- a) Notes the final report of the Service Delivery Review programme

3 Background

The New Zealand Government, as part of their Better Local Government reform programme, introduced a change to the Local Government Act (2002) that placed an obligation on councils to review its services for cost effectiveness.

The new section of the Act, section 17A, states that a review should consider three elements; how a service is governed, how it is funded and how it is delivered. The intent of the legislation is to encourage efficiencies and collaboration between councils, as well as improve the delivery of services to our communities.

The initial reviews were required to be completed by August 2017. The Audit and Risk Committee has overall oversight of the programme.

4 Approach

While all reviews were channeled through the staff steering group for consistency, varied approaches to completing the reviews have been used across the business. The method being based on the scope of the service, size of contracts and importance to the community.

However, in all approaches, there is a focus on shared service potential and the identification of further efficiencies which could be implemented as a result of the review process.

For some areas, relatively simple internal reviews were deemed sufficient. This was applicable to areas where legislative constraints mean there is little or no opportunity to change the business model or sometimes make the service not commercially viable. An example of this being library services.

Other areas chose to use an independent consultant to facilitate the reviews, which removed any possible bias when completing the review. Community and regulatory services followed this model.

Finally, those services with concentrated community interest or where large value contracts existed were contracted out to external parties to complete. These are in depth reviews. An example of this type of review is the transport services review.

5 Discussion

This is the final report to the committee on this programme. Since the last progress report in June, the following has been completed:

- The bulk of the Community reviews were reported to the July Community Development Committee meeting
- The Water Services reviews were reported to the July Infrastructure Committee meeting
- The Waste and Drainage reviews were report to the July and August Infrastructure Committee meetings
- The Parks and Recreation reviews were reported to the August Infrastructure Committee meeting
- The Human Resources reviews were reported to the August Finance and Corporate Committee meeting
- The bulk of the Corporate reviews were reported to the August Finance and Corporate Committee meeting.
- The Transport Services review was reported to the September Infrastructure Committee meeting
- The Economic Development review was reported to the September Planning and Development Committee.

There has been considerable effort to ensure these reviews have been completed. A summary of the programme is provided at Attachment One.

Of the 53 total reviews, 49 have been completed, while five remain outstanding. As at writing of this report, no reviews have suggested that the delivery of the service change from what is currently being delivered. Despite the status quo remaining, it has been a worthwhile exercise testing our business delivery models to ensure that they are still appropriate for Whangarei.

There are five reviews that remain outstanding with a summary of each provided below. A strict reading of the legislation requires only public facing services be reviewed. However, our approach to these reviews has been to include all of our back-office functions.

Procurement: As reported to the June Audit and Risk Committee, we have recognised that the review of the procurement function needs to be done in conjunction with the review of the procurement policy, and this is dependent on staff resource. This work will be commenced this year once a Procurement Manager is in place, and will be reported to the Finance and Corporate Committee.

Civil Defence: The Civil Defence review has largely been completed for Whangarei District. However, it has been waiting on the updated shared service level agreement from Civil Defence Emergency Management (CDEM) Northland Regional Council (NRC) and Whangarei District Council (WDC). Further, the NRC is currently completing a service delivery review for the CDEMG for the whole of Northland. Once this has been completed, it will be reported to the Community Development Committee.

Māori Relationships: This review has not been completed. Given the size of the delivery model for council (two current FTE) and the low-cost implications, this is not a significant omission from the programme.

Commercial Property: A Draft of this review has been done but has been put on hold pending the completion of the City Centre Plan and the proposed Urban Plan change. The City Centre Plan will be reported to the Council by December 2017 and the first draft of proposed Urban Plan Change is scheduled to be presented to the Council also in December this year. Further work will be done on reviewing the Commercial Property Portfolio depending on the direction set by these strategic planning documents. At this stage, it is proposed to complete the 17a Review in mid 2018.

Economic Development: The Economic Development review was reported to the September Planning and Development Committee. The committee laid the report on the table.

6 Next Steps

Legislation requires that services reviews are completed at least every six years, or when significant contracts are due for renewal. We will prepare a forward work programme for future service delivery reviews, and report this to the Audit and Risk Committee, which will continue to be responsible for overall programme management.

7 Significance and engagement

The decisions or matters of this report do not trigger the significance criteria outlined in Council's Significance and Engagement Policy, and the public will be informed via agenda publication on the website.

8 Attachments

1. Final Service Delivery Review Schedule summary

Service Delivery Review Schedule

Group	Department	Services to be reviewed	PROGRESS UPDATE	Reported
Corporate	Information Services	Privacy and information services	Complete	August Finance and Corporate Committee
		Data and information services		
		Technology requirements - Internal & External		
		Website and online service provisioning		
	Finance	Treasury	In progress	To be done in conjunction with the procurement policy review
		Rates including Water		
		Procurement		
Community	Property	Pensioner Housing	Complete	July Community Development Committee
	District Promotions	Tourism Visitor Guide Service		
	Library	Library resource procurement		
		Library services including Mobile		
	Customer Services	Point of contact for public		
	Venues and Events	Venues and Events Whangarei		
	Community Services	Community Services - Department		February Community Development Committee
		Community Safety Services		
	Civil Defence	Civil Defence	In progress	To be completed - awaiting further information and Northland wide review
Planning and Development	Property	Commercial Property	In progress	Delayed due to review of the City Centre Plan and the proposed Urban Plan change
	Economic Development	Economic Development	In progress	Reported to the September Planning and Development Committee - further discussion required
	Regulatory Services	Parking, dogs and bylaws	Complete	Presented to council (2016)
		Licencing (Food premises and liquor)		February Planning and Development Committee
	Building Compliance	Building Consent Processing		
	Resource Consents	Resource Management Act compliance		
	Policy and Monitoring	District and Spatial Planning		
People & Capability	Human Resources	Payroll	Complete	August Finance and Corporate Committee
		Recruitment		
		Health and Safety		
		Staff Training		
		Fleet management		
Strategy & Democracy	Governance	Internal/external legal services	Complete	May Finance and Corporate Committee
	Maori Relationships	Maori Relationships	Not completed	
Infrastructure	Waste and Drainage	Public Toilets	Complete	August Infrastructure Committee
		Pump Maintenance		July Infrastructure Committee
		Treatment Plants		
		Mechanical Fitting		
		Scada Services		
		Electrical Services		
		Network Services		
		Wastewater Treatment		August Infrastructure Committee
		Flood Management		
		Refuse, Recycling & Transfer station operations		July Infrastructure Committee
	Water Services	Water Treatment		
		Water Distribution		
		Electrical and Scada		
		Pump Maintenance		
		Leak detection		
		Water meter reading		
		Professional Services		
	Transport and Roothing	Asset Management		September Infrastructure Committee
		Physical Works		
		Professional services		August Infrastructure Committee
	Parks and Recreation	Cemetery/Crematoria and Historic sites		
		Natural Area Management		
		Parks Maintenance (inc Tree Management, playground and skatepark, Parks and Gardens, sports parks, graffiti, coastal structures, tracks and walkways)		

4.2 Health and Safety Report

Meeting: Audit and Risk Committee
Date of meeting: 27 September 2017
Reporting officer: Desarae Williams (Health and Safety Manager)

1 Purpose

To provide the Audit and Risk Committee with information on key health and safety risks, and measures in place to mitigate those risks at the Whangarei District Council (WDC) workplace.

2 Recommendation

That the Audit and Risk Committee notes the information presented in the report and its attachment.

3 Background

Elected members have significant influence over our workplace and are obliged to:

- Apply due diligence to ensure the council is meeting legal health and safety obligations.
- Ensure that health and safety risks have been identified and are being suitably mitigated.
- Be confident that WDC is providing a safe workplace for workers.

This report provides key information that addresses these matters at a governance level.

4 Discussion

Risks

Attachment One of this report shows the top ten health and safety risks at the Whangarei District Council Workplace.

Since the last meeting, the shooting of three people at Mt Tiger has caused some concern amongst staff. Our CE, Rob Forlong subsequently requested a review of our existing systems and processes for those visiting premises, properties and other public places on behalf of council. The review found some areas were aware, proactive and minimising risk and others were conscious of the issues but more casual in their approach. This incident has been a catalyst to increase staff awareness of the risks when visiting premises, properties and other public spaces. As a result, we have worked closely with the teams and standardised processes in all areas. The risk of aggressive members of the public towards staff and contractors remains our highest risk.

The Hub at the Town Basin and the Ruakaka Hub had security risk audits undertaken since the last meeting.

There has also been some movement in terms of the top ten risks, with;

- the specific risk of the public falling from heights at transfer stations being replaced with general work at heights
- the lowering of Walton Plaza security risks, due to altered MBIE processes

Injuries

Statistics are shown for the last quarter of the 2016-17 financial year below. The trend arrow relates to the previous quarter.

Injury Type	Employee	Contractor	Public	Totals YTD to 31/3/17	Trend
Injury notifiable to WorkSafe NZ	0	0	0	3	↓
Lost Time Injury (injury needing days off)	1	2	0	11	Same
Medical Treatment Injury (visited doctor or physio)	1	11	1	51	↓
Occupational health exposure	0	1	0	11	↓
Minor injuries (First Aid)	8	21	1	127	↓
Pain and Discomfort	25	0	0	109	↑
Incidents	22	23	2	283	↓

Table 1: WDC Injuries 1 April – 30 June, 2017

Please note: there is a correction in the above table since the last report. A difference between the number of staff who had a lost time injury was highlighted, after a reconciliation between Payroll and H&S was undertaken, revealing two more lost time injuries than had been documented in the health and safety system.

Table 2 overleaf shows incidents reported over last four years.

Incident Type	2013-2014	2014-2015	2015-16	2016-2017
Injury notifiable to WorkSafe NZ	3	6	2	3
Lost Time Injuries	13	14	7	11
Medical Treatment Injuries	37	19	46	51
Occupational health exposure	0	0	0	11
Minor Injuries	40	46	74	127
Pain and Discomfort	9	18	84	109
Incidents	137	116	382	283

Table 2: Workplace Injuries over last four financial years

While some of the numbers seem to be 'worse,' these could be explained by encouragement of better reporting than in the past. These figures include staff, contractor and those affecting members of the public.

Legislative Compliance

WorkSafe NZ have issued further information about asbestos requirements, especially involving the certification of people permitted to handle. One of the key changes we are currently working through, is documenting the reasoning behind the forward plan to remove or not asbestos from each building containing asbestos or suspected of containing asbestos.

There are new Hazardous Substances Regulations coming into effect on December 1st, 2017 and we are working through this to ensure compliance. A specialist audit of the key areas is being investigated.

Training

Table 3, below, shows a summary of training undertaken during the previous quarter.

Internal	External
<ul style="list-style-type: none"> • New Manager Briefings • Defibrillator training • Contractor Management Briefings • Fire Warden Briefings • Security warden Briefings • Councilor panic button workshop 	<ul style="list-style-type: none"> • First Aid (Lifecare) • Armed Robbery (Fearfree) • Customer Conflict for Field Staff (Fearfree) • Site Safe passports • Confined space entry (Northtec) • Car control (Tracktime) • H&S Rep training (Northtec) • Office Safety (AIM)

Table 3: Summary of training undertaken 1 June – 31 August, 2017

Occupational Health and Wellbeing

- Scheduled occupational health checks have continued since the last meeting
- A wellness plan is being formulated
- The Employee Assistance Programme usage has increased, with staff reporting on its effectiveness

5 Significance and engagement

The decisions or matters of this report do not trigger the significance criteria outlined in Council's Significance and Engagement Policy, and the public will be informed via report publication on the website.

6 Attachments

Top Ten Health and Safety Risks, September 2017

Attachment 1: Ten highest perceived health and safety risks in Whangarei District Council ‘workplaces’

#	Risk Description	Cause of the Risk	Consequence/ impact of an event happening	Inherent Risk Rating	Controls in Place	Residual Risk Rating	Future Controls	Future Risk Rating
1	Aggression from members of public	Workers out in field coming across aggressive people, aggressive people coming into council	Worksafe notifiable injury	Critical	<ul style="list-style-type: none"> Security procedures in place Regular training sessions on what to do in lock down or restricted access events. Personal safety and armed robbery training provided Monthly H&S & Security meetings held with other tenants Planned drills, which expose holes in systems Audits of high risk areas 	High	A further security audit has been completed and provided for the Customer Services Ruakaka Hub and The Hub at the Town Basin	
2	Traffic and driving hazards	Other people driving badly, pedestrians walking out in front of vehicles, errors of judgement made. Fatigue etc. Also risk to workers when crossing roads from traffic.	One Worksafe notifiable injury or potentially many fatalities	Critical	<ul style="list-style-type: none"> Driver assessments Licence checks Driver – car control training being provided for high use fleet drivers Driver checklists implemented 	High		
3	Workplace stress	Work overload, bullying, unreasonable behaviours,	WorkSafe NZ notifiable injury	Critical	<ul style="list-style-type: none"> EAP (Employee Assistance Programme) system available Encouragement to early 	High	Note: the staff review has reportedly made a number of staff	

#	Risk Description	Cause of the Risk	Consequence/ impact of an event happening	Inherent Risk Rating	Controls in Place	Residual Risk Rating	Future Controls	Future Risk Rating
		unresolved conflict. This can be compounded by out of work issues			<ul style="list-style-type: none"> report and resolve issues Policies in place giving guidance 		anxious or overwhelmed.	
4	Aggression from WINZ and CYFs clients at Walton Plaza	Work and Income or CYFs clients (with aggression not necessarily directed or targeted at council staff, but affected nevertheless)	Several fatalities	Critical	<ul style="list-style-type: none"> CCTV Panic buttons Personal safety and armed robbery training Minimal amounts of cash kept in public area Security firms come and regularly collect cash New – W&I have put tighter security measures in place and this 'appears' to be having a positive impact 	High	The staff in 'one building' concept would eliminate this risk. One lockdown event this quarter	Nil
5	Trips and slips	Slippery surfaces, unrecognised trip hazards, people not paying attention	WorkSafe NZ notifiable injury	Critical	<ul style="list-style-type: none"> Encouragement of reporting and resolving the risk as soon as possible 	High		
6	Contractors creating risks in the workplace	Contractors injuring themselves and others when undertaking council work or while at council workplaces/ This is especially risky	Multiple fatalities WorkSafe NZ Prosecution	Critical	<ul style="list-style-type: none"> Good initial health and safety appraisal system – we are moving to a prequalification requirement of being SiteWise approved to 50% or more, within stated timeframes 	High	We are also requiring our higher risk sub-contractors to have SiteWise prequalification approval by the end of 2017.	Medium

#	Risk Description	Cause of the Risk	Consequence/ impact of an event happening	Inherent Risk Rating	Controls in Place	Residual Risk Rating	Future Controls	Future Risk Rating
		if they are uncertified (H&S) contractors			<ul style="list-style-type: none"> • Tight asbestos removal controls • Annual review of existing contractors • Monitoring processes • Contractors informed of requirements and standards, with regular communication to contractors • Council staff trained in requirements • Contractor Management policy in place • Permit to Work system in place • Lockout system in place • Induction of contractors 			
7	Lack of sufficient CCTV in some remote areas of council (Particularly the Town Basin Hub and branch libraries)	This is part of number one risk, in terms of aggressive people, but placed here as an open and unresolved risk. CCTV can act as a deterrent	WorkSafe NZ notifiable injury	High	<ul style="list-style-type: none"> • We do not have these in place – we have been looking at quotes etc, but as the CCTV contract is up for renewal, we are trying to have a consistent approach in who and what we use 	Open	Once in place, these will considerably reduce the risk – they are primarily a deterrent.	Nil
8	Work at heights (WAH)	Falling	Worksafe notifiable injury	High	<ul style="list-style-type: none"> • Training • Permits to work • WAH reviews and audits • Procedures • Handrails • Use of scaffolding 	High	One barrier left to complete.	Low

#	Risk Description	Cause of the Risk	Consequence/ impact of an event happening	Inherent Risk Rating	Controls in Place	Residual Risk Rating	Future Controls	Future Risk Rating
					<ul style="list-style-type: none"> • Use of Elevated work platforms • Assessments of risk and plans to work safely • Supervision 			
9	Roller related accidents	Wrong roller type used, camber and slant of road, roller driving technique, driver fatigue or boredom or inattention, lack of trained workers	Worksafe notifiable injury	High	<ul style="list-style-type: none"> • Training • Standard operating procedures – our larger contractors have recently shared theirs with others • Review of the issue with contractors • Use of correct rollers • Use of radios on worksites 	Medium		
10	Confined space entries (CSE)	Unmitigated risk into confined spaces including lack of; training, certified people, procedures, supervision, permits etc.	Multiple fatalities WorkSafe NZ Prosecution	High	<ul style="list-style-type: none"> • Requirement to use CSE permit to work and suitable procedures • CSE policy • Trained staff • Air & gas monitoring • Rescue plans • Monitoring • Supervision • Notification to our contractors about our standards and requirements 	Medium		

4.3 Financial Management Activity Update Report

Meeting: Audit and Risk Committee
Date of meeting: 27 September 2017
Reporting officer: Rich Kerr (Finance Manager)

1 Purpose

To update the Committee on financial management activity over the previous three month period and upcoming financial matters.

2 Recommendation

That the Audit and Risk Committee notes the financial management activity over the previous three months.

3 Discussion

2016 – 2017 Annual Report Project Process

We are on track for Council adoption of the 2016 – 2017 Annual Report at the 28 September 2017 Council meeting. Audit began their final visit on 28 August. They have completed their initial review of property plant and equipment and at this stage have not identified any material changes.

The Audit Arrangements letter (AAL) for this audit set out the significant risks/issues identified by Audit NZ for the audit. The table below lists these risks with commentary on how they have been addressed for the 2016-2017 year:

Audit NZ Risk or Issue	WDC's approach or response
Capitalisation of Work in Progress (WIP)	WIP was \$5.3 m at the end of the year. Of this only \$0.2 m was attributable to historic WIP - a significant reduction from the historic opening balance of \$12.4 m at the beginning of the year.
Valuation of Property Plant & Equipment	The revaluation was completed by the Asset Data team using AECOM as the external valuers. The methodology was refined resulting in a more robust process compared to the exercise 3 years ago. The outcome was a reduction of \$13.5m against a total value of non-roading

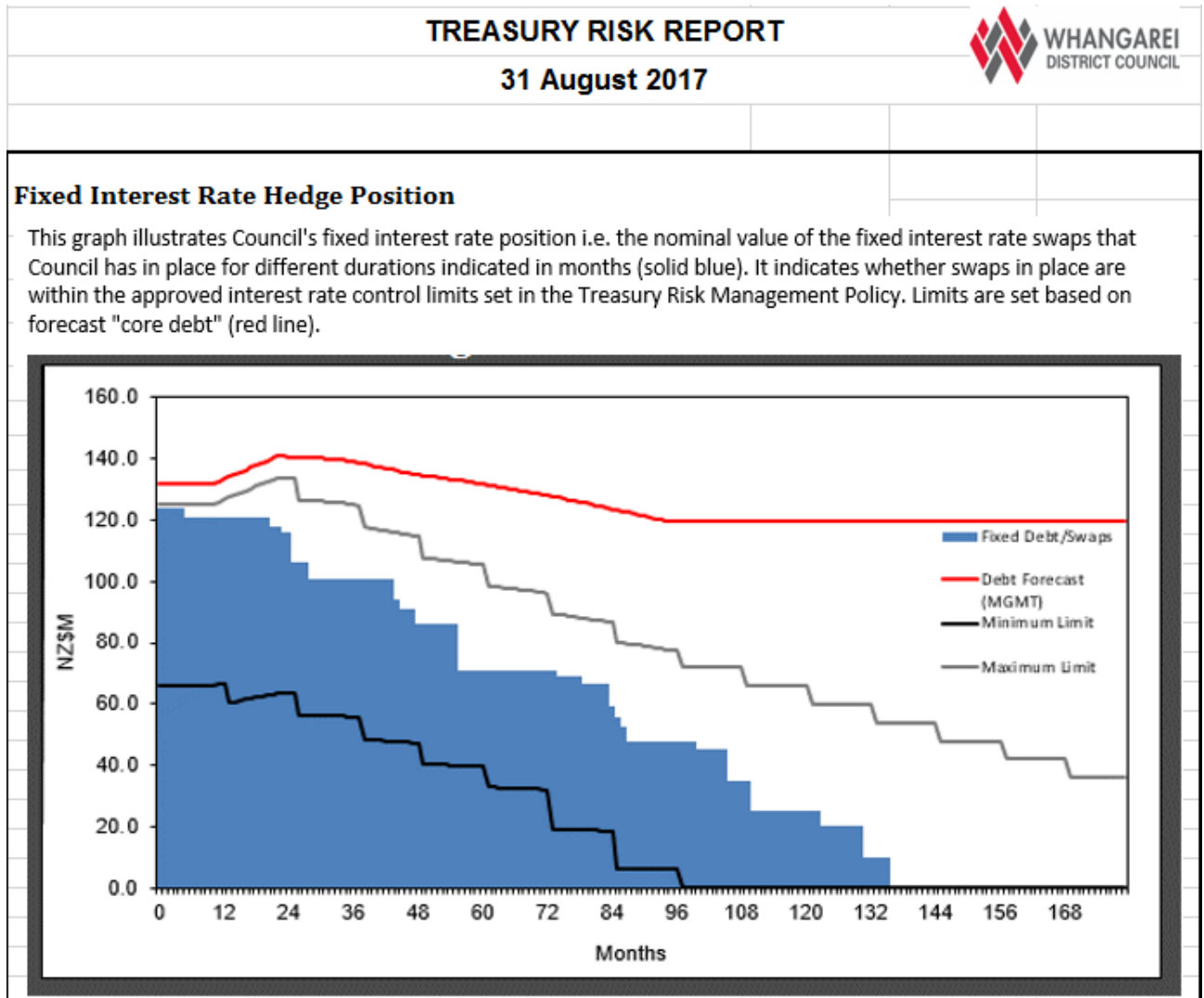
Audit NZ Risk or Issue	WDC's approach or response
	infrastructure of approx. \$650 m.
Vested Assets	Over the last two years WDC has reviewed and improved the process for identifying vested assets. Vested asset income for 2016-17 was \$8.9 m.
Revaluation of Investment Properties	The valuation of investment properties was completed by Telfer Young with an increase in value of \$3.3m.
Hundertwasser Wairau Maori Arts Centre (HWMAC)	Transparent disclosure about the status of this project has been made via a comprehensive note (Contingent Assets and Liabilities). Focused work by Audit NZ to provide assurance around the fundraising achieved as at 30 June 2017 was undertaken as a separate exercise in July.

Other Significant non- cash Items

- Loss on sale of \$38.9 million from divestment of Mangakahia Road to NZTA. Consequential savings of annual maintenance costs.
- Loss on sale of \$8.7 million mainly from disposal of infrastructure assets reviewed as part of the revaluation exercise.
- There was a \$6.3 million revaluation increase of debt instruments (SWAPs), (last year \$8.1 million downwards).

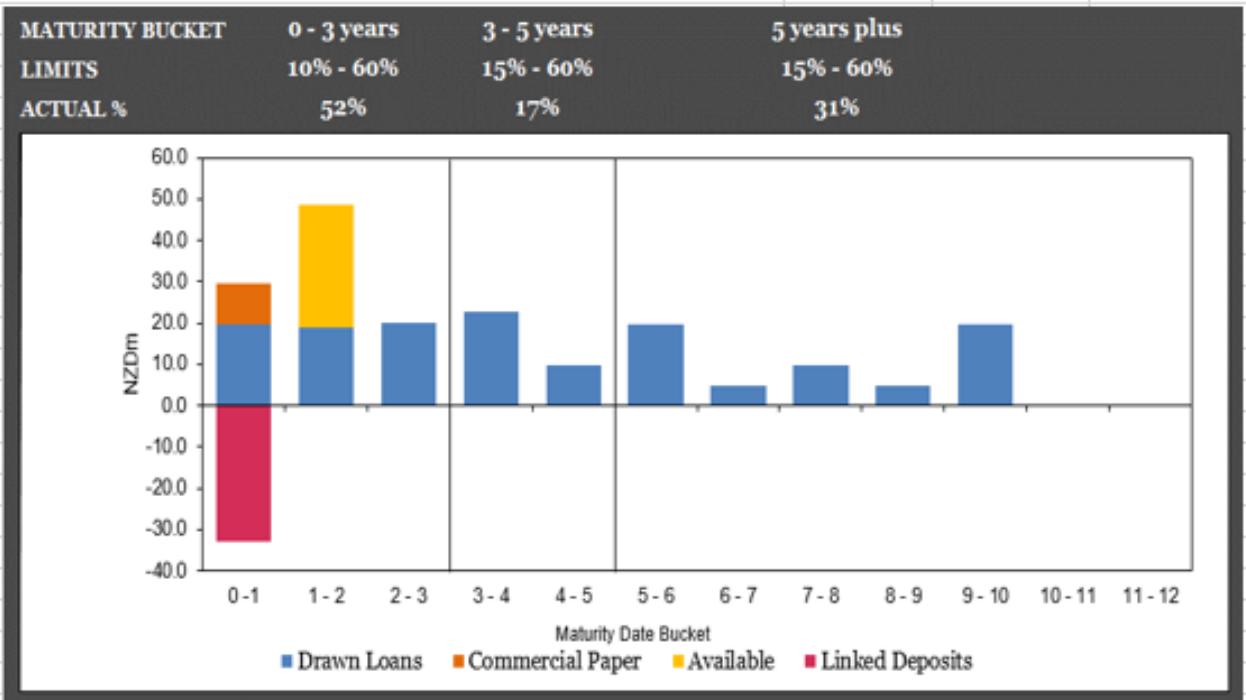
Treasury Risk Management

The graphs below show Council's compliance to the risk parameters set out in the Treasury Risk Management Policy.



Funding Maturity




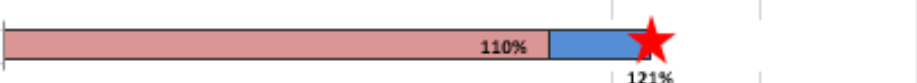
This graph illustrates the maturity of Council's total external debt against the approved limits within each maturity bucket. Current limits for each bucket are set in the Treasury Risk Management Policy and shown in the graph below, with percentages calculated on total external debt.



	Years
Weighted average duration of Loans	4.20
Weighted average duration of Swaps	6.52

POLICY LIMITS:

The following information displays Council's position in comparison to policy limits.

	Policy Limit
Net debt to total revenue:	
	less than 150%
Net interest to rates income:	
	less than 25%
Net debt per capita:	
	less than \$2150
Borrowing level available compared to external debt: (liquidity ratio)	
	greater than 110%

Whangarei Quarry Gardens Trust (WQGT)

There has been discussion with Audit NZ over the last year regarding the classification of the WQGT as a Council Organisation (CO). The fundamental issue is that despite not having direct control of WQGT (e.g. through appointment of trustees), the Office of the Auditor General determined that WDC still has 'effective control' or 'auto-pilot' control through various provisions in the Deed of Trust.

WDC wrote to Audit NZ with our position that Council does not 'control' the WQGT and therefore do not believe that WQGT should be classed, treated and consolidated as a CO. Councils lawyer also wrote to Audit New Zealand on the matter.

In the June Audit and Risk Committee we mentioned that correspondence had been received from the OAG in regard to the WQGT. The letter was from the OAG to Graeme Mathias, councils lawyer, with their position/assessment of WQGT. This letter was brought to the July Corporate and Finance Committee meeting.

The OAGs position is that WQGT is controlled by WDC when applying PBE IPSAS 6. Consequently, WQGT is a CO for council purposes and requires to be audited by Audit NZ and consolidated as part of the WDC Group when WDC prepares its Annual Report. Both Graeme and staff believe that this is a final position and it is not worth pursuing any further.

Insurance

We advised in the June report that we were investigating insurance options for our underground infrastructure assets provided by the Local Authority Protection Programme (LAPP), and our public liability and professional indemnity insurance provided by Civic Liability Pool (CLP).

We moved away from the mutual insurance programme provided by LAPP, and used our broker Aon to source a commercial insurance option for our underground infrastructure assets. This change resulted in a cost saving of \$60k this year.

As CLP were no longer offering insurance we also sought commercial options to provide public liability and professional indemnity insurance. We engaged Jardine Lloyd Thompson Ltd to provide this insurance and this produced a cost saving of \$25k this year.

We also advised in our last report that we were moving away from the 30 June insurance renewal dates to a November renewal date. This was done to avoid the very busy end of financial year, but also align ourselves with all of the Northern Councils, with which we have an informal collective agreement, through our broker Aon. This shift has created process efficiencies and provides us with better purchasing power with our collective insurance programmes. Our Audit and Risk Analyst manages our insurance programme and has now commenced work on the insurance renewals to meet the November timeframe.

4 Significance and engagement

The decisions or matters of this report do not trigger the significance criteria outlined in Council's Significance and Engagement Policy, and the public will be informed via agenda publication on the website.

4.4 Key Risk Report

Meeting: Audit and Risk Committee
Date of meeting: 27 September 2017
Reporting officer: Jason Marris (Manager Democracy and Assurance)

1 Purpose

To update the Audit and Risk Committee on Council's current risks, and highlight future work in risk management.

2 Recommendations

That the Audit and Risk Committee:

- (a) notes the updated identified risks for the Whangarei District Council and their mitigation strategies
- (b) Notes that an in-depth review of key organisational risks is planned over the next six months, which will be reported to the Audit and Risk Committee in early 2018

3 Background

One of the areas of responsibility for the Audit and Risk Committee is to ensure Council develops strategies for identifying and managing risk.

The first step towards this goal was to ensure that Council had a robust and well researched risk management framework that informed all future risk based work, such as staff guidelines, education and reporting. This was achieved with Council adopting the risk management framework in April 2016.

The next step has been the ongoing risk education of our staff and monitoring of controls to mitigate current key risks. This work was ongoing, although it has not been possible to progress further due to the resignation of the Audit and Risk Analyst who left council in mid-May.

4 Discussion

We previously provided the top 10 risks to the Audit and Risk Committee, however, the committee requested that more risks be provided as part of this report. At the June meeting we expanded the risks that were reported.

Since the June meeting, three actions have occurred in this area of work:

1. Our new Audit and Risk Analyst commenced on 28 August 2017

2. The risks reported to the June Committee were reviewed at a high level by the Operational Leadership Team (Department Managers in the organisation). A review will be performed regularly by this group of senior managers to ensure future currency and accuracy of our risks, before being reported to this committee.
3. Minor changes were made to the current risks

The review of our risks by the OLT highlighted that there were some gaps (e.g. the need to identify high level strategic risks to the organisation), and some of the risks themselves required further review and updating. Minor changes were made to the current risks only which is provided at Attachment One.

Due to the prominence of the recent legislative changes, the Health and Safety risks are reported separately to the Audit and Risk Committee, and are not included in this list.

5 Next Steps

Now that our new Audit and Risk Analyst has started, our focus will shift to conducting a comprehensive review of our risks. The aim of this will be to ensure our risks are relevant, appropriate and accurate. We will also identify key strategic risks as part of this process. We anticipate that this work may change the risk register significantly. We are aiming to report this to the first or second quarter committee meeting in 2018.

6 Significance and engagement

The decisions or matters of this Agenda do not trigger the significance criteria outlined in Council's Significance and Engagement Policy, and the public will be informed via agenda publication on the website.

7 Attachments

Updated Whangarei District Council's risk register as at 1 September 2017

Whangarei District Council's key risks register as at 1 September 2017 (excluding the Health & Safety risks reported elsewhere)

#	Risk Description	Cause of the Risk	Potential consequence/ impact of an event happening	Inherent Risk Rating	Controls in place	Residual Risk Rating	Future Controls	Future Risk Rating	Department
1	Risk of natural hazard impact on waste water assets and operations	Climate changes result in sea level increase that will affect waste water assets and operations. Adverse weather and/or rainfall will affect waste water assets and operations.	Failing waste water assets and/or operations resulting in environmental contamination. Third party claims resulting in financial loss	Critical	In place: Advice provided to Local Government who is monitoring situation.	High	Still to do: Development of WDC policy to climate change.	High	Waste & Drainage
2	Risk of Internal Intrusion – Security	Intrusion via Cyber Threat or internal intrusion effected by staff.	Resulting in a virus or business outage, loss of data caused by an unknown threat.	Critical	In place: Monitoring of all cyber threat activity on a daily basis. Updating of all Anti-Virus software on a daily basis – scheduled and managed by all Cloud providers and onto desktop equipment. Intrusion detection provided on all PC's. Separate “ghost” network for public spaces. By policy no Systems Administrator privileges applied to any devices to allow free install of applications by users.	High			Information Services

					System policies employed to reduce ability to download or access black listed sites. Continuity plans in place to recover data.				
3	Risk of not delivering continued waste water services	Back-up generators at major facilities fail. Inadequate priority fuel arrangement with supplier for generators. Not all key sites recognised through lifelines. No or inadequate Business Continuity Plan, or not frequently tested if it exists.	Environmental contamination. Operational capability of Council disabled. Third party claims resulting in financial loss.	Critical	In place: Back-up generators at major facilities. Member of Northland Lifelines Group. Key sites recognised through lifelines.	High	Still to do: Business Continuity Plan finalised, implemented and frequently tested; including priority fuel supply arrangement with supplier.	Medium	Waste & Drainage
4	Risk that properties are not managed appropriately across the organisation.	Inadequate contract management skills. Inadequate asset data quality maintenance. Unclear asset management responsibility and/or	Financial loss due to loss of revenue from rentals, or alternative accommodation for staff to perform their tasks. Civil defence emergency management cannot use Council Chambers as	Critical	In place: Established Building codes. Condition Surveys and prioritisation of maintenance.	High	Still to do: Ensure business continuity and civil defence plans provide for backup buildings that are likely to remain stable in a significant event. Mutually agreed processes regarding	Medium	Property

		<p>communication across the organisation, i.e. disposals and acquisitions.</p> <p>A significant event, i.e. tsunami, can cause damage to Council properties.</p> <p>Asset maintenance planning not performed, and/or executed effectively.</p>	<p>emergency operations centre.</p>				<p>property acquisitions and disposals.</p> <p>Ensure civic buildings meet all building codes including seismic strength.</p> <p>Asset management plans to cover maintenance and compliance of all civic buildings.</p>		
5	<p>Risk of losing Accreditation of Building Consent Authorities</p>	<p>Non-Compliance with the regulations and the requirements identified under the New Zealand Building Act, New Zealand Building Code and relevant standards.</p> <p>Warranted Officers not following policy and process.</p> <p>Incorrect use of the conflict of interest register in</p>	<p>Council unable to grant building consents and perform functions as identified under The Building Act.</p> <p>Legal Action.</p> <p>Reputational damage.</p> <p>Financial loss.</p>	Critical	<p>In place: Training and competency assessments are carried out on a regular basis to ensure that technical decisions are made by competent Officers performing within their area of competence or with suitable supervision.</p> <p>Skills matrices are updated on a regular basis with training outcomes identified.</p> <p>Monitoring of this process is done externally every 2 years.</p> <p>Political input is identified and the conflict of interest register is used to manage this aspect.</p>	High	<p>Still to do: Ongoing internal auditing is done on a regular basis and this identifies any inconsistencies to allow for process improvements for continued compliance.</p> <p>Continued accreditation will ensure that the technical manual is adhered to – this implies the auditing process is adhered to and identified improvement</p>	Medium	Building Compliance

		relation to Political input.					outcomes are implemented timely.		
6	Risk of IT Production System, Back up or Server failure	Incident, Disaster or Hardware failure.	Critical business application or network outage. Will affect staff ability to provide services.	Critical	<p>In place: Cloud service providers have in place Replication systems to Disaster Recovery (DR) Centres.</p> <p>Cloud services include multi-server failover and self-healing clusters.</p> <p>Daily Backup routines in place across all cloud providers.</p> <p>Backup storage off site from Cloud providers core Data Centres.</p> <p>Cold Spares (available replacement swap out gear) held for critical equipment such as network switching onsite at WDC.</p>	Medium			Information Services
7	Risk that members of the public to become sick from water borne organisms	Contaminated and untreated water.	Fatalities with the young and aged being most at risk. Large number of ill people and animals.	Critical	<p>In place: Many water sources are secured (Exception: Wilsons Dam).</p> <p>Water is treated by Ultra Violet (UV) which kills protozoa organisms, including Cryptosporidium & Giardia.</p> <p>Water is treated with chlorine, which kills bacterial organisms. If the chlorine dosing is affected, this trips an alarm which is promptly responded to by a Water Technician.</p>	Low	<p>Still to do: Not required.</p> <p>Following the August 2016 Havelock North incident, our Water Engineer reviewed all of the current WDC systems in place, to satisfy ourselves we had taken all possible mitigation steps.</p>		Water

					<p>Residual chorine in distribution areas is regularly sampled and tested.</p> <p>Water is regularly monitored and tested for bacterial levels, including source water and distribution areas.</p> <p>Trained and competent staff who work in this area take especial pride in ensuring the highest standard of water quality is provided to the public.</p>				
8	Risk of environmental contamination by Private Landowner's waste water.	<p>Private Landowners don't understand or are oblivious to their waste water obligations.</p> <p>Standards and obligations not publicly available.</p> <p>Standards and obligations not communicated with Private Landowners.</p> <p>Council staff not aware of, or trained on Standards and obligations to advise correctly.</p>	<p>Private Landowners fail their waste water obligations resulting in environmental contamination.</p> <p>Third party claims resulting in financial loss.</p>	High	<p>In place: Communications with Private Landowners regarding their obligations to waste water Standards. Standards and obligations publicly available.</p>	High	<p>Still to do: Implement bylaw or WOF.</p> <p>Produce Booklet for Private Landowners regarding their obligations to waste water.</p>	Medium	Waste & Drainage

9	Risk of waste water assets and/or operations failure	<p>Staff has inadequate systems knowledge in terms of the waste water network, facilities, IT systems and related process.</p> <p>Inadequate asset management in terms of condition knowledge and planned preventative maintenance.</p> <p>Insufficient process documentation for knowledge transition.</p>	<p>Failing waste water assets and/or operations resulting in environmental contamination.</p> <p>Third party claims resulting in financial loss.</p>	High	In place: Perform asset management planning.	High	<p>Still to do: Document the related processes.</p> <p>Finalise BCP and perform BCP test.</p>	Medium	Waste & Drainage
10	Risk of inability to resource sufficient skilled staff	Due to district location and funding available.	Reliance is placed on individuals to operate critical systems.	High	<p>In place: Partnerships formed with local and national contractors to provide services.</p> <p>Existing staff provide coverage across a number of different capabilities to provide business critical backup.</p>	Medium			Information Services
11	Risk of telecommunications service supply discontinuity	<p>Vendor Service Supply interruption due to:</p> <ul style="list-style-type: none"> Failure 	Access to the organisation's Corporate Enterprise system Technology One unavailability -	High	In place: Redundant supply for both Internet and voice lines. Supply provided by Vodafone and Spark.	Medium			Information

	(Internet and Voice)	<ul style="list-style-type: none"> Hazard Disaster staffing Incident 	<p>affects critical functions:</p> <ol style="list-style-type: none"> 1. Receipting 2. Customer Services 3. Regulatory <p>Voice - affects incoming and outbound calling.</p>		Automatic re-routing of internet and voice traffic during an outage to alternate supply line.				
12	Risk of property revenue leakage	<p>Lack of understanding of property management requirements in other departments than Property.</p> <p>Insufficient human resources to achieve strategic plan/objectives.</p> <p>Conflicting strategic priorities.</p> <p>Inadequate HR planning.</p> <p>Insufficient budget.</p>	<p>Rent arrears not collected timely.</p> <p>Rent reviews and lease negotiations not performed.</p> <p>Inadequate contract management.</p> <p>Legal Action.</p> <p>Reputational damage</p>	High	In place: Monthly reporting to LT. Follow-up phone calls and correspondence to tenants. Legal action through small claims and or collection agency.	Medium	Still to do: Identify process improvements to prevent arrears to occur initially. Establish clearer Governance/ Operational roles and responsibilities.		Property
13	Risk of not having appropriate insurance cover for	Incomplete/ outdated asset/liability information used	Uninsured assets or liabilities, or paying insurance	High	In place: Audit and Risk Analyst appointed to oversee Council's insurance function, including the	Medium	Still to do: Arrange process for changes to assets and liabilities schedules with key gatekeepers that		Governance

	assets and liabilities	for insurance coverage.	for disposed assets or liabilities.		brokerage contract and annual renewal processes. Council Managed Properties module to administer land acquisitions/disposals.		triggers asset and liability changes, i.e. fleet administrator.		
14	Risk of issuing an inappropriate resource consent	Incorrect interpretation of legislation. Incorrect decision by staff. Political input with issuing of resource consent.	Legal Action. Reputational damage. Financial loss.	High	In place: Ongoing staff up-skilling through internal and external training, attending workshops and conferences. Political input is identified and managed at senior level; expectancy of no-surprises.	Medium	Still to do:		Resource Consents
15	Risk of prolonged inability to supply potable water	Power outages. Seismic event. Prolonged drought. Dam failure. Trunk main failure.	Unable to meet service levels due to water shortage. Reputational damage.	High	In place: Demand management strategy. Network maintenance strategy. Comply with NZ dam safety guidelines and comprehensive dam safety review regime every 5 years. Emergency action plan.	Medium	Still to do:		Water
16	Fraud and corruption risk	Payment made to false companies/ individuals set up by staff; and/or manipulation of payment details on supplier invoices	Unable to meet service levels due to stop on spending. Reputational damage. Financial loss.	High	In place: Strong financial delegations and internal controls in place (such as dual signatories, bank statement review, supplier bank account verification, vehicle audits) to prevent the known dangers of fraud and corruption, and attendance at regular seminars is	Medium	Still to do: Staff will be reminded of their responsibilities in relation to fraud and corruption annually at an All Staff meeting and twice yearly on Council's intranet.	Low	Governance

		<p>Staff steals, borrow or use council assets for personal purposes.</p> <p>Improper award of contracts.</p> <p>Payments made to non-existent staff.</p> <p>False claims/ documentation to obtain employment.</p>	Legal Action.		<p>recommended to stay abreast of any new threats that may eventuate.</p> <p>Strong embedded recruitment processes.</p> <p>Internal accounting controls are in place and assessed annually by-way of external and audit programmes and council has Fidelity (employee fraud and crime) Protection Insurance is in place.</p> <p>There is an independent Audit and Risk Committee member.</p>		Council through Audit and Risk Analyst plan to undertake a Fraud Assessment.		
17	Risk of incorrect decision-making	<p>Lack of informed decision making.</p> <p>"Biased" decision making.</p> <p>Conflict of interest not disclosed.</p> <p>Decisions made that don't follow legislation.</p>	<p>Legal Action.</p> <p>Reputational damage.</p> <p>Insertion of commissioner(s).</p>	High	<p>In place: Robust internal communication processes and quality checks on information provided for decision making.</p> <p>Relevant ongoing training and revision of existing procedures, or development of new procedures</p> <p>Terms of reference for committees, and delegations for staff</p>	Medium		Medium	Governance
18	Risk of not following legislation	<p>Change in legislation not identified.</p> <p>Policies and procedures not updated to reflect change in legislation.</p>	<p>Legal Action.</p> <p>Reputational damage.</p> <p>Financial loss.</p>	High	<p>In place: There is a legal function employed with access to a panel of external legal firms through pre-arranged SLA's.</p> <p>6 monthly legislative compliance programme.</p>	Low			Governance

		Policies and procedures not followed.							
19	Risk of data theft or fraud	<ul style="list-style-type: none"> - Intrusion - Sabotage (internal or external) - Theft <p>Via Council system access either authenticated or not.</p>	<p>Could cause: Disrepute.</p> <ol style="list-style-type: none"> 1. Financial inconsistencies or 2. data loss and inconsistencies. 	Medium	<p>In place: Reporting on Master Data changes across key critical business areas including Payroll and Financials is made available to the responsible business units.</p> <p>Auditing of events and updates across all key systems is undertaken and monitored routinely.</p> <p>Internal access and authentication process controls in place.</p>	Medium			Information Services

4.5 Interim Audit Report at 30 June 2017

Meeting: Audit and Risk Committee
Date of meeting: 27 September 2017
Reporting officer: Jason Marris (Manager Democracy and Assurance)

1 Purpose

To present Audit NZ's Interim Audit Report of Whangarei District Council for the year ended 30 June 2017

2 Recommendations

That the Audit and Risk Committee:

- a) notes the Interim Audit Management Report issued by Audit NZ for the 2016/17 Financial Year
- b) notes the new recommendations raised by Audit NZ and Council's response to them.

3 Background

Each financial year, Audit NZ performs an audit on the Council's financial statements and supporting processes. This is agreed with Council management prior to the audit commencement, and the following occurs:

- a) Audit NZ issues two Audit Management Reports each financial year, highlighting areas where they have identified Council's processes can be improved. The first report is called an Interim Audit Management Report following their interim audit visit prior to 30 June. The second (and final) report is issued after conclusion of their final audit after 30 September every year. The final report incorporates the items in the Interim report as well as those items identified in their final audit visit.
- b) Council management receives the draft Audit Management Reports and provides commentary to Audit NZ to clarify matters, provide explanations and address any technical concerns.
- c) Audit NZ considers the comments and makes adjustments to their findings, if needed, before finalising and issuing the Audit Management Reports to Council.
- d) The Audit Management Reports are reported to the Audit and Risk Committee, which has oversight of this function.

Council is committed to ensuring that any areas for improvement highlighted by Audit NZ are monitored, addressed and implemented.

4 Discussion

The interim audit report for the 2016/17 Financial Year is located at Attachment One, with new recommendations. Management comments are located on the report. We have not yet received the final audit management report.

In their interim audit, Audit NZ focus was on our control environment, evaluating our key internal control systems for financial and non-financial information. Audit NZ noted that the capitalisation of work in progress (WIP) remains an area of risk but also that we are continuing to review our historical WIP balance, while also improving our processes in this area.

Audit NZ will review the revaluation of our non-roading infrastructure assets completed by Opus International and AECOM Limited, during the final audit to ensure that the impact on the financial statements is correctly accounted for. Mention was also made of the need for us to resolve some accounting technical issues with the Whangarei Art Museum Trust (WAMT) due to the continuation of the Hundertwasser project.

The interim report provided an additional five new recommendations, classed as necessary. These are in the areas listed below. More detail is provided in the attached report.

- TechOne delegations
- Capitalisation of WIP
- Vested Assets
- Impairment Review
- Revaluation reserve on disposal

We have commented on the recommendations from our perspective in the report. A report on the outstanding actions from previous reports is also on this committee's Agenda, so they won't be commented on here.

5 Significance and engagement

The decisions or matters of this Agenda do not trigger the significance criteria outlined in Council's Significance and Engagement Policy, and the public will be informed via agenda publication on the website.

6 Attachment

Audit NZ report on the interim audit of Whangarei District Council for the year ended 30 June 2017

Report to the Council on the interim audit of
Whangarei District Council
for the year ended 30 June 2017

Key messages

We have completed our interim audit of Whangarei District Council (the Council) for the year ended 30 June 2017. This report sets out our findings from the interim audit and draws your attention to the recommendations we have made for improvement.

Our focus for the interim visit was to update our understanding of the Council's control environment, and evaluate the Council's key internal control systems for financial and non-financial information. We also updated our understanding of the significant risks we highlighted in our Audit Arrangements Letter.

The capitalisation of work in progress remains an area of risk and the Council is continuing its review of the historical WIP balance while improving the processes in place for capitalising new projects. The Council currently has a number of assets in work in progress which they intend on capitalising at year end. Refer to section 3.1 for further details.

The Council is planning to revalue roading, water, wastewater, stormwater and parks and reserve assets at 30 June 2017. We will review the revaluation when completed by Opus International Limited and AECOM Limited during our final audit. It is important that the valuation is reviewed and challenged by the Council and that the impact on the financial statements is correctly accounted for so that this does not impact the annual reporting timelines.

The Council will be making a decision in July/August, based on the funds raised by the Whangarei Art Museum Trust (WAMT), about whether or not the Hundertwasser project will proceed. If the project goes ahead, the Council will need to resolve a number of accounting

technical issues with WAMT as this impacts on the disclosures in the Council group's financial statements.

The Council is also currently under-going an organisational restructure. This has put a number of the Council's plans on hold until the restructure has been finalised. As a result a number of the issues raised in the prior year management report remain in progress until the restructure is completed.

Of the recommendations raised during the previous years' audits, 11 matters have been cleared, 10 matters are still in progress and we expect another 12 will be cleared by 30 June 2017. Please see Appendix 2 for further details.

Issues identified during the audit

The following table summarises our recommendations and their priority:

Ref	Recommendation	Urgent	Necessary	Beneficial
2.1	TechOne Delegations Controls are reviewed around adding and deleting delegation limits within TechOne to ensure that TechOne reflects the delegations manual.		✓	

Ref	Recommendation	Urgent	Necessary	Beneficial
3.1	Capitalisation of WIP Projects completed before 30 June 2017 should be capitalised.		✓	
3.2	Vested Assets Review subdivisions that are completed or near completion to ensure that vested assets have been correctly recorded.		✓	
3.3	Impairment review The impact of seismic strengthening requirements should be considered as part of the revaluation of assets.		✓	
3.4	Revaluation reserve on disposal Revaluation reserve relating to disposed assets should be transferred to retained earnings on disposal of the assets as required by accounting standards.		✓	

There is an explanation of the priority rating system in Appendix 1.

Thank you

We would like to thank the Council and management for their assistance during the audit.

Athol Graham
Audit Director
10 July 2017

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1 Assessment of your control environment

We have performed a high-level assessment of the control environment. This assessment was performed for the purpose of planning the most effective and efficient audit approach, in order to enable us to express an audit opinion on the Council's financial statements and the non-financial information. We considered the overall attitude, awareness, and actions of the Council and management in establishing and maintaining effective management procedures and internal controls.

In performing this assessment we considered both the "design effectiveness"¹ and "operational effectiveness"² of internal control. The explanation of these terms is outlined below. However, it is not the purpose of our assessment to provide you with assurance on internal control in its own right. As such we provide no assurance that our assessment will necessarily identify and detect all matters in relation to internal control.

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

Internal controls

We reviewed the internal controls in place for your key financial and non-financial information systems, as detailed below. Internal controls are the policies and processes that are designed to provide reasonable assurance as to reliability and accuracy of financial and non-financial

reporting, as well as compliance with significant legislative requirements. These internal controls are designed, implemented and maintained by the Council and management. Both "design effective" and "operationally effective" internal controls are important to minimising the risk of either fraud or misstatement occurring. The responsibility for the effective design, implementation and maintenance of internal control rests with the governing body.

During our interim visit, we concluded we were able to rely on the expenditure and payroll automated systems and controls for the purpose of our audit. We also tested a sample of manual controls for expenditure, payroll and revenue. Overall we were satisfied that the controls were operating effectively for the purpose of our audit. We continue to note weaknesses in the area of balance sheet reconciliations and masterfile changes for payroll. Our detailed findings are included in Appendix 2.

2 Internal control findings

2.1 TechOne delegations

We noted 18 differences between staff delegation limits in TechOne and the Council's Delegation Manual. Three staff had TechOne delegation limits exceeding the limits set in the manual and 15 staff had delegation authority within TechOne but did not have any delegation in the manual.

Having delegations in TechOne which are not consistent with the delegation manual gives staff the ability to approve

¹ The control is effective to either prevent or detect a material error in either the financial statements and/or non-financial information if the control is "fit for purpose".

² The Control has operated effectively throughout the period tested.

expenditure outside their approved delegation. This reduces the quality of controls and increases the risk of error or fraud.

We discussed this with management and confirmed that the delegations manual is correct. IT had inadvertently given these staff incorrect delegated authority within TechOne. This highlights the need for stricter controls around adding and deleting delegation limits in TechOne.

We recommend that controls are reviewed around adding and deleting delegation limits within TechOne. This will ensure that the Council delegation limits in TechOne are consistent with their financial delegations manual.

Management comment

Management will review the process around adding and deleting delegations within TechOne and ensure they are consistent with the delegations manual.

3 Preparation for our final audit

In preparation for our final audit we recommend that management consider implementing the following recommendations. This will ensure an efficient year-end audit process.

3.1 Capitalisation of work in progress

During our testing of work in progress, we identified a number of assets within work in progress that are complete and should be capitalised.

The risk arising from not capitalising assets on a timely basis is understatement of the depreciation expense. This will give the Council inaccurate information about the cost of using these assets. It could also result in a material misclassification of assets in the notes within the financial statements.

We recommend that management capitalise all projects that have been completed. Any significant projects that are complete that are not capitalised will be included in our misstatement schedule as a classification error and included in the letter of representation.

Management comment

Management intends to capitalise as many projects as they can.

3.2 Vested assets

During our interim, we selected a sample of 10 vested assets to test. Three out of the 10 vested assets should have been vested in the Council in previous years. The value of all these assets was not material.

By not capitalising vested assets on a timely basis, assets are not being depreciated correctly and vested asset revenue may be understated in the financial year.

We understand that management will be performing a review of all subdivisions completed or nearing completion at 30 June to ensure all the related vested assets have been correctly capitalised. We will review this assessment to ensure that all significant subdivision vested assets have been capitalised.

Any significant assets that should have been vested in Council but have not been recorded will be included in our misstatement schedule.

Management comment

The reviews over all subdivisions is completed every year to ensure that all vested assets are correctly capitalised.

3.3 Impairment review

The Council carried out capital works for seismic strengthening on some investment property. These costs were expensed as it was deemed that this work would not increase the value of these assets. A more accurate accounting treatment would be to impair the value of the original asset. This is because this asset is less valuable as it required seismic strengthening work. Any subsequent seismic strengthening can be capitalised. We understand the Council will be correcting the accounting treatment for these assets in the financial statements.

There is a risk that the value of the Council's assets are overstated if they are not properly impaired prior to seismic strengthening. Furthermore any significant impairment could trigger a full asset revaluation of all similar assets.

We recommend that the impact of seismic strengthening should be considered as part of the revaluations of all assets. The Council should also consider impairing any assets that are not revalued and have seismic strengthening issues that need to be addressed.

Management comment

This will be considered as part of the year end revaluation.

3.4 Revaluation reserve on disposal

During our review of disposals, we note that the Council is not transferring any revaluation reserve attached to the assets to retained earnings. This is a requirement of the accounting standards.

We have discussed this with management and requested a review is performed to identify the value of the revaluation reserve that should be transferred to retained earnings of all assets disposed.

If the Council does not transfer the correct revaluation reserve to equity on the disposal of assets the revaluation reserve will be overstated. Also a revaluation loss in future years may be incorrectly applied against the revaluation reserve when it should have been recorded through the statement of comprehensive revenue and expenses as there would be no reserve.

We recommend that any revaluation reserve is transferred to retained earnings on disposal.

Management comment

An analysis of the value will be performed and provided to audit. Any revaluation reserve identified will be transferred to retained earnings.

4 Summary of previous years' recommendations

Summary of action taken against previous years' recommendations:

Number of recommendations from previous years' audits	Current status
11	Matters that have been resolved
12	Matters that are expected to be cleared by 30 June 2017
10	Progress is being made, but not yet fully resolved

This summary needs to be read in conjunction with the status of recommendations raised in previous years' management reports as detailed at Appendix 2.

Appendices

DRAFT

Appendix 1: Explanation of priority rating system

Our recommendations for improvement and their priority are based on our assessment of how far short the Council is from a standard that is appropriate for the size, nature, and complexity of its business. We have developed the following ratings for our recommendations:

Urgent

Major improvements required

Needs to be addressed *urgently*

These recommendations relate to a serious deficiency that exposes the Council to significant risk. Risks could include a material error in the financial **statements and the non-financial information**; a **breach of significant legislation**; or the **risk of reputational harm**.

Necessary

Improvements are necessary

Address at the earliest reasonable opportunity, *generally within 6 months*

These recommendations relate to deficiencies that need to be addressed to meet expected standards of good practice. These include any control weakness that could undermine the system of internal control or create operational inefficiency.

Beneficial

Some improvement required

Address, *generally within 6 to 12 months*

These recommendations relate to deficiencies that result in the Council falling short of best practice. These include weakness that do not result in internal controls being undermined or create a risk to operational effectiveness. However, in our view it is beneficial for management to address these.

Appendix 2: Status of previous years' recommendations

Matters in progress

Recommendation	Current status	Priority	Management's proposed action
Hundertwasser Wairau Maori Arts Centre (HWMAC)			
<p>As the HWMAC project progresses there are a number of issues that the Council and the Whangarei Art Museum Trust (the Trust) will need to consider including:</p> <ul style="list-style-type: none"> • completing appropriate due diligence over the guarantee required under the lease agreement with Council; • determining the accounting treatment of the land and buildings under the lease agreement with Council; • reviewing the Trust's CCO status under the Local Government Act; • supporting the establishment of good practice over procurement and project management; and • considering the accounting recognition and disclosure of donated goods and services (if significant in the financial statements). 	<p>Status: In progress</p> <p>The Council is in the process of determining the accounting treatment of the land and building under the lease with the Council. This should be concluded as part of the 2017 audit to ensure any impact on the 2017 annual report is considered.</p> <p>WAMT exempt status is expected to be removed after 30 June 2017 and an SOI will be prepared for this entity.</p> <p>The Council is currently reviewing the procurement process around the initial HWMAC project. We understand that the Trust will go out for tender if the HWMAC project goes ahead.</p>	Necessary	<p><i>The Council will agree the accounting treatment of the HWMAC leased land and buildings with WAMT as part of finalising the lease agreement.</i></p> <p><i>The Council will complete due diligence over the guarantee as part of the process of formalising the peppercorn lease with WAMT.</i></p> <p><i>Staff intend to recommend that the WAMT's exempt CCO status be removed in the event that the Hundertwasser project proceeds.</i></p> <p><i>The Council will discuss procurement & project management of the construction of the HWMAC with WAMT.</i></p>

Recommendation	Current status	Priority	Management's proposed action
Procurement and risk management			
<p>The Procurement Policy is due to be updated and we recommend:</p> <ul style="list-style-type: none"> • assigning responsibility for updating the policy; • clarifying how late tenders will be handled; and • clarifying the policy about the handling of gifts or hospitality from suppliers. <p>The risk management framework could be improved by making it clear who is responsible for ensuring that risk processes are being applied within the Council.</p>	<p>Status: In progress</p> <p>The updated Procurement policy has been drafted. Once the reorganisation is completed this will be finalised and the responsibility of the policy will be assigned.</p> <p>The Risk Management Framework is in the process of being reviewed to clearly outline the responsibility to a particular staff member.</p>	<p>Beneficial</p>	<p>Procurement plan to:</p> <p>A draft policy has been prepared and once the reorganisation is complete responsibility for the policy will be assigned to a particular procurement role and the review will be completed.</p> <p>Risk management plan to:</p> <p>Review of the Risk Management framework to, inter alia, improve it by making it clear who is responsible for ensuring that risk processes are being applied within the Council.</p>
Controls over employee masterfile changes			
<p>We recommend that the Council implements an effective review process for employee masterfile changes. This could be achieved by implementing a one-up approval step in the system. Alternatively, a masterfile change report can be obtained from IT and independently reviewed on a regular basis, for example, after each pay run.</p>	<p>Status: In progress</p> <p>The Human Resources team currently operate a paper based one up approval for payroll changes and are working with TechOne to build a simple masterfile change report to automate this process.</p>	<p>Necessary</p>	<p>We are currently reviewing the masterfile change process that TechnologyOne are proposing.</p>
Accounting for the Bream Bay Land Owners Association (BBLOA) arrangement			
<p>We recommend that the Council reviews the accounting treatment for balances and transactions resulting from this agreement to</p>	<p>Status: In progress</p> <p>A review of the agreement is currently underway to potentially update it to</p>	<p>Beneficial</p>	<p>BBLOA agreement currently being reviewed. This had not yet been completed by the end of April 2017.</p>

Recommendation	Current status	Priority	Management's proposed action
<p>ensure that it is correctly reflected in the Council's financial statements, and that an appropriate accounting policy is adopted for the future.</p> <p>In addition, we ask that the Council keeps us informed of any significant developments under this agreement, and any similar arrangements entered into in the future.</p>	<p>reflect growth and HUE (Household Unit Equivalent) changes. The Council's BBLOA project manager has been advised to factor an accounting review into the review of the document before it is finalised and the decision was made not to undertake an accounting review through the Annual Report process.</p> <p>The review of this agreement had not been completed at our interim visit.</p>		
Impairment of earthquake prone buildings			
<p>The Council should consider the risk of impairment on relevant assets for seismic strengthening.</p>	<p>Status: In progress</p> <p>The Council is currently assessing the impairment of earthquake prone buildings. Some earthquake prone buildings have been identified. In other areas such as waste and drainage, parks and libraries assessments are at various stages. An update in relation to the Council's biggest two earthquake prone assets is provided below:</p> <p>Forum North building</p> <p>Options for the Council premises at Forum North are being progressed with Council receiving regular updates on options. This will be considered as part of the year end impairment test.</p> <p>Central City Car park</p>	<p>Beneficial</p>	<p><i>Forum North: estimates to meet compliance have been determined. Progress is being made regarding the future One Building Council project and pending that decision will address the earthquake issues associated with Forum North.</i></p>

Recommendation	Current status	Priority	Management's proposed action
	<p>The body corporate is to determine a maintenance programme which may or may not affect seismic solutions identified in the engineer's report. These will be incorporated into budgets as determined through planned maintenance/capital plans. This will be considered as part of the year end impairment test.</p> <p>Through our testing at interim we identified some assets that should have been impaired in relation to seismic strengthening.</p> <p>We have also recommended that the Council should also consider any other infrastructure assets that should be impaired due to seismic strengthening.</p>		<p><i>Central City Car Park: The body corp is progressing a maintenance plan. Council has budgeted to contribute to the appropriate solution and will progress the work in the next financial year.</i></p>
Building consent fees received in advance			
We recommend that old building consents are reviewed and refunded if appropriate.	<p>Status: In progress</p> <p>The Council is reviewing the treatment of this account.</p> <p>The Council's view is that many of the prepaid fees are still in progress, so do not need refunding. The others are in a refund situation because the applicant have not applied for a Code Compliance Certificate (CCC).</p>	Beneficial	<p><i>Council has continued to deal with these on an application received basis.</i></p> <p><i>The Building Act remains unchanged in this area in reference to the owners needing to apply for a code compliance certificate.</i></p>
Review of employee code of conduct			

Recommendation	Current status	Priority	Management's proposed action
We recommend that the Employee Code of Conduct is reviewed and updated.	Status: In progress The review of the Code of Conduct is underway. Consultation with staff is about to commence.	Beneficial	<i>The elected members have not yet adopted their code of conduct - once they have we will progress to the next step and consult with employees.</i>

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Recommendation	Current status	Priority	Management's proposed action
Monthly reconciliations			
<p>The Council should review the reconciliation process to ensure that reconciliations are correctly prepared and reviewed. We also recommend that the Council implement controls around the new digital reconciliations.</p> <p>Fixed assets reconciliation</p> <p>We recommend regular reconciliations to ensure reconciling items and variances are addressed in a timely manner.</p>	<p>Status: In progress</p> <p>The Council has reviewed the reconciliation process to ensure that reconciliations are completed accurately and reviewed in a timely manner by the appropriate level of staff. Balance sheet reconciliations have been prioritised as either high, medium, or low.</p> <p>The frequency of the review of each reconciliation will be determined by its priority ranking. For example, those reconciliations classified as high will be reviewed monthly while those of low priority may only get reviewed on a quarterly/six monthly/ or annual basis.</p> <p>To ensure that reconciliations are prepared correctly, a standard template has been implemented. Reconciliations will also be peer-reviewed at least annually by the Financial Services Manager. The Council is currently looking to options for digital review sign-off.</p> <p>We noted from our review of the reconciliations for the 2016/17 year that the creditor reconciliations were not prepared or reviewed in a timely manner. The reconciliations for the month of August and December 2016 were not reviewed.</p>	Beneficial	<p><i>Due to resources issues, the Financial Accountant that reviews the reconciliations was not able to review the reconciliations in a timely manner. Once an additional resource is hired this should allow the Financial Accountant more time to review the reconciliations.</i></p>

Recommendation	Current status	Priority	Management's proposed action
Sensitive expenditure transactions			
<p>The Controller and Auditor-General's good practice guide <i>Controlling sensitive expenditure: Guidelines for public entities</i>³ recommends that credit card statements should be reviewed by somebody more senior than the person holding the card. It also recommends that "...in the case of people in very senior positions, the principle of approval by a more senior person (the "one-up" principle) should be applied to the maximum extent possible. However, there will be some instances where an alternative approach will be required because there is no more senior person. In such instances, it is essential that there should be no reciprocal arrangement for approving sensitive expenditure (that is, with a person approving expenditure having their own expenditure approved by the person whose expenditure they are approving). An arrangement involving three persons is one way to avoid this problem (for example, A approves B's expenditure, B approves C's expenditure, and C approves A's expenditure)."</p>	<p>Improvements have been implemented and all purchase orders now require dual authorisation. Staff and Managers have been advised that all approvals should be "one-up".</p> <p>The Council has reviewed the Sensitive Expenditure Policy to ensure that it is in line with changes to the authorisation process. Delegations are currently being reviewed in light of the new changes requirements to ensure that they are appropriate. Credit card expenditure is approved as follows:</p> <ul style="list-style-type: none"> • Group Managers approved by CE; • Alan Adcock approves Rich Kerr; and • CE & Mayor approves one another. We suggest that another person is involved in approving the Mayor's credit card expenditure to eliminate the reciprocal arrangement. <p>Conferences, Seminars and Training are approved by the Group Manager and Group Managers are approved by the CE. Rules around koha have been tightened, and all koha payments are now</p>	Beneficial	

³ <http://www.oag.govt.nz/2007/sensitive-expenditure>

Recommendation	Current status	Priority	Management's proposed action
	monitored by the financial accountant to ensure compliance. A Koha Policy is currently being developed. During our testing of items of sensitive expenditure in nature we did not identify any significant issues.		

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Matters expected to be cleared by 30 June 2017

Recommendation	Current status	Priority	Management's proposed action
Capitalisation of work-in-progress (WIP)			
<p>Capitalisation policies were approved in July 2016 and should result in improved accounting and reporting of capital projects. In the absence of those policies during the 2016 audit we have continued to recommend that:</p> <ul style="list-style-type: none"> the process for capitalising assets is monitored to ensure it is effective in managing the timely and accurate capitalisation of WIP; the review of WIP incorporates an impairment assessment of balances not yet capitalised at year end; and as-built plans and other required documentation are required before accepting assets from developers. 	<p>Status: Expecting matter to be cleared by 30 June 2017</p> <p>The capitalisation policy has been approved in July 2016.</p> <p>A review of WIP impairment is expected to be completed by year end.</p> <p>We noted through our interim testing of vested assets and capitalised assets that as-built plans were provided prior to the assets being capitalised.</p>	Urgent	<p><i>With the implementation of the capitalisation policy and the clean-up of WIP staff are able to actively monitor and review WIP with timely capitalisation.</i></p> <p><i>At year end WIP will be reviewed for impairment.</i></p> <p><i>Processes are in place to ensure acceptable as-built plans and other required documentation required before accepting assets from developers are received before issue of the 224C.</i></p>
Payment dates for targeted rates for water supply			
<p>We recommend that the Council review its rates resolution for targeted rates for water supply to ensure it meets the requirements of the Local Government (Rating) Act 2002.</p>	<p>Status: Expecting matter to be cleared by 30 June 2017</p> <p>The rates resolution was not available during our interim audit. This will be reviewed as part of our final visit.</p>	Necessary	<p><i>Council has obtained legal advice and will consider whether suggested changes are workable.</i></p>

Recommendation	Current status	Priority	Management's proposed action
Vested assets			
<p>We recommend that the Council develop systems and processes to ensure vested assets are capitalised when completed.</p> <p>We also recommend that the Council continues to seek timely receipt of as-built plans from developers, prior to issuing section 224 certificates.</p>	<p>Status: Expecting matter to be cleared by 30 June 2017</p> <p>System and processes have been put in place to ensure vested assets are capitalised when complete.</p> <p>Through our testing of vested assets at interim we identified 3 out of 10 assets should have been capitalised in previous financial years (2004, 2012 and 2016). The value of these assets was immaterial. At year end we will review the Council's work over cut-off to ensure all significant vested assets have been correctly capitalised.</p>	<p>Necessary</p>	<p><i>Council accepts in part the comments raised in relation to the previous periods of assets vested and taken appropriate action to amend business processes to ensure timely recognition of vested assets into Hanson.</i></p> <p><i>Council's business processes already ensure as-built plans are received from developers before issuing section 224 certificates.</i></p>

Recommendation	Current status	Priority	Management's proposed action
Fully depreciated assets			
We recommend that the Council review the useful lives within the fixed asset register and the accounting policies to ensure that the useful lives reflect the actual life of these assets.	Status: Expecting matter to be cleared by 30 June 2017 The Council is planning to complete this as part of the year end valuation.	Beneficial	Council has noted the finding and is reviewing useful lives for assets in Hansen as part of the YE2017 revaluation.
Core infrastructure assets - disclosure note			
We recommend formalising the process for determining the figures included in the core assets disclosure.	Status: Expecting matter to be cleared by 30 June 2017 We will review the core infrastructure asset disclosure as part of our final audit.	Beneficial	Staff will formalise the process for determining the figures included in the core assets disclosure to ensure it accurately calculates the required disclosure.
Information technology - capitalisation of Trilogy project			
The Council should review Trilogy related costs to ensure they are correctly accounted for and disclosed.	Status: Expecting matter to be cleared by 30 June 2017 Staff have reviewed all Trilogy related costs to ensure that they are correctly accounted for and disclosed. We have reviewed these costs and are satisfied the Council has identified which costs should be capitalised and expensed. During our interim visit, the project costs had not yet been capitalised or expensed. This will be completed by 30 June 2017. The useful life of the new project will be 10 years. This is based on previous history. We have assessed this as being reasonable. The accounting policies will need to be updated to reflect this.	Necessary	The capitalisation of this project will be completed by 30 June 2017. The accounting policies will be updated to reflect the 10 year useful life.

Recommendation	Current status	Priority	Management's proposed action
Valuation of infrastructure assets			
<p>The following recommendations were made in previous management reports:</p> <ul style="list-style-type: none"> processes are developed to ensure that all assets within a class are revalued; and valuation reports are reviewed for reasonableness. <p>Refer to prior management reports for detailed recommendations.</p>	<p>Status: Expecting matter to be cleared by 30 June 2017</p> <p>The Council will ensure as part of the revaluation process that all assets within an asset class have been captured as part of the revaluation. The valuation reports will be reviewed for reasonableness.</p>	Necessary	<p><i>The revaluation process was reviewed by both Asset Data and Financial Services prior to commencing the YE2017 revaluation of assets in Hansen. As part of this process a draft valuation report will be provided and reviewed for reasonableness.</i></p>

Recommendation	Current status	Priority	Management's proposed action
Assessment of areas susceptible to fraud			
We recommend that the Council implements a formalised process to identify and address areas susceptible to fraud.	Status: Matter expected to be cleared by 30 June 2017 This will form part of the Council's annual internal audit work programme.	Necessary	Council accepted and considered recommendation; action completed with a process in place.
Related party disclosures			
We recommend that management adopt robust procedures to ensure all transactions with related parties that are not at arms-length are disclosed in the accounts to ensure compliance with the accounting standards.	Status: Expected to be completed by 30 June 2017 Council plans to provide us with thorough assessment of related party transactions to confirm that transactions are or are not at arm's length and to ensure that any potential related party transactions are disclosed in the Annual Report (if required) and any conflict of interest risks are mitigated.	Necessary	Council accepted and considered recommendation; action completed with a process in place.
Valuer's recommendations			
We recommend that the Council implements the recommendations identified by the Roding valuers in 2014.	Status: Expected to be completed by 30 June 2017 Action plans have been put in place to address the issues. We will review the revaluation report to determine whether the recommendations have been addressed.	Beneficial	14 action plans at various stages of completion by end of March 2017.

Recommendation	Current status	Priority	Management's proposed action
Consistent accounting policies for the group			
With the roll-out of PBE accounting standards in 2015, group accounting policies will need to be reviewed to ensure consistent accounting policies across the group, particularly in light of the fact that the Council has a profit-oriented joint venture which will apply a different suite of accounting standards to the Council and other entities in the group.	Status: Expected to be cleared by 30 June 2017 The Council has reviewed and updated the accounting policies. Whangarei District Airport and NRLLP are now both accounted for using the equity method in both the parent and group.	Beneficial	<i>Whangarei District Airport and NRLLP are now accounted for using the equity method in both the parent and group.</i>
Stonehaven community loans			
We suggest that the Council formally reviews the loans for impairment on a regular basis, based on the financial circumstances of the borrower.	Status: Expected to be cleared by 30 June 2017 Loans will be formally reviewed for impairment indicators at 30 June 2017. During the year, Stonehaven has made repayments towards their loan. The Trust is currently preparing a proposal for the Council's consideration. This will include a capital repayment program.	Beneficial	<i>Liaising with the Stonehaven Trust, who are developing a long term strategic plan. In the meantime they are aware of the need to make regular repayments of principal.</i>

Matters that have been resolved

These matters have been satisfactorily resolved during the 2016/17 interim audit.

Recommendation	Outcome
<p>Componentisation of capitalised assets</p> <p>Assets captured within the Hansen fixed asset system should be recorded with sufficient detail at an appropriate component level, to ensure that these assets can be appropriately accounted for in the future. This includes ensuring that as-built plans are obtained in a timely manner, so that the value and quantum of individual components can be recognised in the asset management system and depreciated appropriately.</p>	<p>Status: Matter Cleared</p> <p>Financial Services and the Asset Data team have implemented policies, support, tools and training to assist the business with componentisation of capitalised assets. In the first instance componentisation is addressed in the capitalisation policy which has now been presented to department managers through workshops, asset managers and operational staff.</p> <p>In addition to this the following tools were developed and put in place for the commencement of the 2016/17 financial year:</p> <ul style="list-style-type: none"> • a template header for the build-up of costs on capital projects; and • a project closure checklist outlining information requirements prior to Department/Project Managers advising Finance to remove a project from WIP. <p>The need for timely and accurate provision of as-builts and schedules detailing costed components was covered in the workshops and training. We have noted that there is still likely to be projects that should have capitalised at year end but have not at year end because the as-builts and schedule have not been received.</p>
<p>Assets disposals</p> <p>All disposals should be appropriately removed from the fixed asset management systems to ensure accuracy of records and accounting treatment.</p>	<p>Status: Matter Cleared</p> <p>A Disposals Policy was adopted as an operational policy by the Leadership Team in August 2016. From our testing during interim, we have not identified any issues with asset disposals.</p>

Recommendation	Outcome
<p>Approval of additions to property, plant and equipment</p> <p>We recommend that a formal process is implemented to independently approve and capitalise assets out of WIP. We believe that this could be addressed through implementation of a capitalisation policy.</p>	<p>Status: Matter cleared</p> <p>The Capitalisation Policy was adopted by the Leadership Team in August 2016 as an operational policy. From 1 July 2016 there will be a new process in place. A capital project spreadsheet for all projects that are identified as completed are prepared by the asset managers and sent to Asset Coordinators to process.</p>
<p>Capitalisation policy</p> <p>We recommend that a capitalisation policy is implemented. This should be communicated to staff, and training provided to key staff. This will help ensure consistency of accounting and treatment and accuracy of asset records.</p>	<p>Status: Matter cleared</p> <p>The Capitalisation Policy was adopted by the Leadership Team in August 2016 as an operational policy.</p>
<p>Network password settings</p> <p>We recommend that the Network Domain password setting for “Complexity” is turned on to ensure that more complex passwords are used.</p>	<p>Status: Matter cleared</p> <p>The Council has advised us that they have complied with a GCIO standard and implemented complex network domain password settings as of July 2016.</p>
<p>Sensitive expenditure policy</p> <p>We recommend sensitive expenditure policies are reviewed to incorporate the OAG best practice guidelines.</p>	<p>Status: Matter cleared</p> <p>The policy was reviewed and draft changes taken to Audit & Risk Committee in June 2016 who recommended it for Council approval and adoption. Council approved the policy on 27 July 2016.</p> <p>We are satisfied the policy incorporates best practice guidelines.</p>
<p>Expenditure: Supplier masterfile changes</p> <p>There is no monthly review process of changes to the Suppliers masterfile. Council should ensure that there is a monthly review of changes to the masterfile, conducted by an independent person who does not have the ability to make changes to the masterfile.</p>	<p>Status: Matter cleared</p> <p>As part of the month end process, a report is generated from TechOne to show all supplier maintenance changes that have been made. We noted from our review this only include bank account changes and not new suppliers.</p> <p>A random sample of these have been reviewed monthly from 1 September 2016 by the Financial Accountant. We tested a sample of the reviews being performed and did not identify any issues.</p>

Recommendation	Outcome
Shared services	
<p>We recommend the Council ensure there are clear accountability and governance frameworks in place for the Transportation Hub and Shared Services Business Unit.</p>	<p>Status: Matter cleared</p> <p>A business case was prepared and approved in April 2016.</p> <p>A memorandum of understanding has been developed to confirm the commitment of the Parties and implement the collaborative model.</p> <p>The Service level agreements for in-house professional services between WDC and the Shared Service Business Unit of Northland Transportation Alliance for the period 1 July 2016-30 June 2017 was signed. The agreement set up the annual performance plan, key performance indicators/KPS, scope of services and staff carrying out services on half of the SSBU.</p> <p>The Business Plan for 2016/17 has been approved. The strategic vision, goals and 12 months deliverables are defined in the plan.</p> <p>We will maintain a watching brief over this project.</p>
Audit of Debenture Trust Deed register	
<p>The Council should review its obligations under the Debenture Trust Deed to ensure it is fulfilling its obligations. For example, the Council's Trust Deed requires an audit of the register.</p>	<p>Status: Matter cleared</p> <p>Council provided us with a copy of the PwC audit report during the 2015/16 financial year. We were satisfied that this addressed the obligations of the Council's Trust Deed. We will continue to request a copy of this audit report going forward for the 2016/17 audit.</p>

Recommendation	Outcome
The Council's governance role over Council Controlled Organisations (CCOs)	
We recommend that the Council works with its CCOs to ensure they meet their obligations under the Local Government Act 2002 (LGA).	<p>Status: Matter cleared</p> <p>The draft 2017/18 SOI was received by the Council for WDA and NRLLP on 23 February 2017.</p> <p>The NRLLP six monthly report has not yet been received by the Council. This is a breach of section 66(1) of the LGA for NRLLP.</p> <p>The Governance Manager oversees the CCO reporting programme and will ensure that each CCO reports as required.</p>
Journals	
Journals are not independently approved to verify whether the journal was appropriate. Good practice suggests that journals are individually reviewed and signed as evidence of this review.	<p>Status: Matter cleared – management have accepted associated risks</p> <p>Journals are not required to be independently reviewed. However, management have implemented a process where all journals that are of greatest risk are reviewed. All PPE journals are now reviewed by the PPE Accountant prior to posting in the GL. The Council also considers that regular reviews of Balance Sheet reconciliations, and analysis of month-end reporting assist in identifying possible errors.</p>

4.6 Report on the status of Outstanding Audit Issues

Meeting: Audit and Risk Committee
Date of meeting: 27 September 2017
Reporting officer: Jason Marris (Manager Democracy and Assurance)

1 Purpose

To update the Committee on the status of actions to address outstanding audit issues.

2 Recommendation

That the Audit and Risk Committee notes the status of the outstanding audit issues outlined in the report.

3 Discussion

In previous Annual Report cycles, Audit NZ have identified issues and areas where Council could improve its financial control and reporting processes. Significant improvements have been made across the organisation over the previous years, and this report provides a summary of the progress continuing to be made and on the issues outstanding since the March report to the committee.

We are currently progressing 50 Audit NZ recommendations, 22 recent recommendations and 28 historical matters. The detailed status of the recommendations, including a summary of progress made, are located at Attachment One. The attachment also includes all audit recommendations not yet closed by Audit NZ but which management deems to be resolved. For clarity, the ones we have deemed to be completed are shaded in the attachment.

Of the 22 recent recommendations, 16 are currently being progressed, with six completed. One recommendation, Fully Depreciated Assets, has been completed by management since the March report. Of the outstanding recent recommendations, none of them are categorised as urgent.

Of the 28 historical recommendations, a further three recommendations have been completed since the March report, bringing the total completed to nine, assuming Audit NZ confirm this. They are:

- Valuation of infrastructure assets
- Audit of Debenture Trust Deed register
- Assessment of areas susceptible to fraud

Again, there are no urgent recommendations outstanding.

4 Next steps

We will continue to progress the outstanding actions through the next period, and report any new actions once we have received the final Audit Management report from Audit NZ.

5 Significance and engagement

The decisions or matters of this report do not trigger the significance criteria outlined in Council's Significance and Engagement Policy, and the public will be informed via report publication on the website.

6 Attachment

Audit Issues Action Plan progress summary

Business Owner	Audit Ref	Audit Recommendation	Current status and previous comments	69	Priority	Management's action plans	Implementation Timeframe	Progress @ 31 August 2017
Status of new recommendations								
Rich Kerr	E-2.2.2	Hundertwasser Wairau Maori Arts Centre As the HWMAC project progresses there are a number of issues that the Council and WAMT will need to consider including: - completing appropriate due diligence over the guarantee required under the draft peppercorn lease; - determining the accounting treatment of the land and buildings under the draft peppercorn lease; - reviewing the Trust's CCO status under the Local Government Act; - supporting the establishment of good practice over procurement and project management; and - considering the accounting recognition and disclosure of donated goods and services (if significant in the financial statements).	Status: New Council noted the finding, will consider the recommendation and take appropriate action.		Necessary	<ul style="list-style-type: none"> Council will agree the accounting treatment of the HWMAC leased land and buildings with WAMT as part of finalising the lease agreement. Council will complete due diligence over the guarantee as part of the process of formalising the peppercorn lease with WAMT. Staff intend to recommend that the WAMT's exempt CCO status be removed in the event that the Hundertwasser project proceeds. Council will discuss procurement & project management of the construction of the HWMAC with WAMT. 	Once the funds are raised and the pre-conditions are met.	Work in progress while WAMT is confirming the final build cost to ensure that it has raised enough funds.
Rich Kerr	E-3.1.1	Procurement and risk management The Procurement policy is due to be updated and we recommend: - assigning responsibility for updating the policy; - clarifying how late tenders will be handled; and - clarifying the policy about the handling of gifts or hospitality from suppliers. The Risk Management framework could be improved by making it clear who is responsible for ensuring that risk processes are being applied within the Council.	Status: New Council noted the finding, considered the recommendation and taken appropriate action with a review in progress.		Beneficial	Risk management plan to: Review of the Risk Management framework to, inter alia, improve it by making it clear who is responsible for ensuring that risk processes are being applied within the Council Procurement plan to: A draft policy has been prepared and once the reorganisation is complete responsibility for the policy will be assigned to a particular procurement role and the review will be completed.	30 September 2017	Awaiting start of Business support manager to lead this review council wide.
Rich Kerr	E-3.3	Payment dates for targeted rates for water supply We recommend that Council reviews its rates resolution for targeted rates for water supply to ensure it meets the requirements of the Local Government (Rating) Act 2002.	Status: New Council noted the finding, will consider the recommendation and take appropriate action; including obtaining legal advice on this matter.		Necessary	Council has obtained legal advice and will consider whether suggested changes are workable.	Prior to adoption of Annual Plan	Council has included due dates in its Funding Impact statement in the 2017/18 annual Plan.
Rich Kerr	E-3.5.2	Information technology - capitalisation of Trilogy project The Council should review Trilogy-related costs to ensure they are correctly accounted for and disclosed.	Status: New Council noted the finding and will review all Trilogy related costs.		Necessary	Staff will review all Trilogy related costs to ensure that they are correctly accounted for and disclosed & will continue to work with Audit on whether digitalised records can be capitalised as an intangible asset.	March - May 2017	Council has correctly accounted for the Trilogy project and will seek advice on the accounting treatment for the digitalisation project.
Rich Kerr	E-3.7	Core infrastructure assets - disclosure note We recommend formalising the process for determining the figures included in the core assets disclosure.	Status: New Council noted the finding, considered the recommendation and will formalise a process.		Beneficial	Staff will formalise the process for determining the figures included in the core assets disclosure to ensure it accurately calculates the required disclosure.	Year end 2017	Process has been formalised for the 2016-17 Annual report. Awaiting Audit NZ feedback.
Rich Kerr	I-4.1	Invoice paid twice We recommend finance team management and the systems accountant review system controls within TechOne. This should be done in a test environment to accurately document what details can be entered into TechOne without an application error occurring. We recommend TechOne is configured to allow an invoice number be applied to the respective supplier on one occasion only. The circumstances of the identified exception should be reviewed to understand the rationale for adjusting the order by one cent. That is; to determine if this was a deliberate attempt to circumvent controls, or simply to facilitate administration of the payment	Status: New We will review the system controls within TechOne and investigate whether amendments can be made to improve the current controls. We have looked into the exception and the original purchase was incorrectly amended. We note that there were two copies of the invoice which were in different formats. After further investigation we can confirm that TechOne was not manually overridden. If a purchase order is raised as exclusive of GST, it is a common occurrence that the final inclusive invoice amount can vary by 1 cent due to rounding. When the purchase order is matched to the invoice, the accounts payable staff can then amend the purchase order details in order to align to the invoice. In this situation, there appears to have been a rounding discrepancy between the PO and the invoice. This 1 cent difference was overlooked and not amended at the time of matching the PO to the invoice. The system therefore allowed the payment to occur as the transaction was not recognised as a duplicate due to the differing amounts.		High	We intend to communicate with Tech One to see if this issue has been encountered by other user sites before and if there is a compensating control. We will look at what reports/queries we can run prior to payables runs to check for potential double payments. We will also look at what further training can be provided to payables staff.	By Year end 2017	Work in progress.
Rich Kerr	I-4.2	Compliance with key Council policies and procedures Introduce monitoring controls to detect non-compliance where preventative controls are limited or non-existent. Recommendations regarding the monitoring environment as a whole are detailed in point 4.3 of this report. The degree of non-compliance that we identified suggests there is a need for management to identify the root causes of staff not adhering to policies and procedures. Depending on the nature of underlying causes it may be worth considering: <ul style="list-style-type: none"> If current policies and procedures are practical in the context of the business environment. If staff are sufficiently knowledgeable of purchase order policies and procedures. 	Status: New In terms of monitoring a report comparing the purchase order date against the invoice date is discussed in 4.3 as is the introduction of cyclical spot checks. More targeted communication will occur to parties not adhering to the process. Financial services will become more stringent with rejecting invoices that do not have valid purchase order numbers included on the invoice. There are a number of instances in dealing with council business which mean it is difficult to set up a purchase order ahead of receiving an invoice so we will consider if the current policies need to be adjusted.		Medium	See the next point in terms of the report on non compliance with purchase to pay process. The need to reject invoices without valid purchase order numbers has been communicated to payables staff and they realise the long term benefit in terms of educating purchasing staff and suppliers on adhering to the correct process.	By Year end 2017	Progressing. Compliance reports are provided to department managers on a monthly basis.
Rich Kerr	I-4.3	Monitoring controls We understand a TechOne report is currently being written which will compare purchase order date to invoice date. Finance team management have informed us this is a work in progress due to time constraints and as a result of major projects that are ongoing. Further monitoring controls should also be considered. For example, a monthly 'spot check' programme could be introduced to review compliance of key policies and procedures which don't have preventative controls. A finance team member (with no procurement responsibilities) could select 10x purchase orders raised during the period and review for: <ul style="list-style-type: none"> The supplier invoice containing a valid purchase order number Adequate detail in the purchase order narration Purchase order is raised before goods/ services are received (NB – this won't be necessary once the automated report mentioned by management is in use). An active monitoring control environment, if implemented effectively, will provide the following benefits: <ul style="list-style-type: none"> Identify instances of non-compliance and when investigated should identify the root cause of staff behaviour. If all staff are made aware that procurement policy and procedural compliance is now being monitored this may serve to alter staff behaviour going forward. 	Status: New As part of implementing the new purchase to pay process a compliance report was introduced to identify purchase orders created after invoice date. Concerns that the output of this report is not necessarily correct mean that further work needs to be done although this has had to wait while the Trilogy Project took precedence. Work will be done on the compliance report early in 2017 to ensure that the report can be relied upon. Further to the above, the Internal Audit Rolling Plan will cover key components of the procurement expenditure accounting cycle through the annual auditing of sensitive expenditure and probity reviews of discretionary expenditure; inclusive of CAAT's on relevant and related data sets.		Medium	The report is in place and is being run. Feedback has been provided to all department managers identifying staff involved in purchasing who are not following the purchasing process or not doing so in a timely manner. This report will be run and sent out on a monthly basis. Communications on the need to follow the purchasing process have also been sent to all staff involved in purchasing including department managers and group managers. Discussion on following the process has also been had at the department manager monthly meeting.	Improvements will be made incrementally during the year.	Compliance reports are provided to department managers on a monthly basis.

Business Owner	Audit Ref	Audit Recommendation	Current status and previous comments	Priority	Management's action plans	Implementation Timeframe	Progress @ 31 August 2017
Rich Kerr	I-4.4	Timing of receipting We recommend the procurement procedures manual is amended to relax the requirement for purchase orders to be receipted within 2 days of completion of work. This could be adjusted to 'purchase orders are to be receipted within the earlier of 20 working days or receipt of supplier invoice'. Doing so would be more fitting with current business practice and be more realistic to adhere to. An alternative is to leave the procurement procedures manual as it is, and reinforce the need to receipt purchase orders within 2 days of completion of work. There is no automated control to ensure this is completed, so adherence would need to be self-policed with some form of monitoring control to ensure it is occurring	Status: New We agree with the recommendation to relax the requirement for purchase orders to be receipted within 2 days of completion of work and will do so as part of a key procurement policy documents review and update.	Low	As part of the overall procurement review.	Once restructure finalised. By 31 December 2017	Awaiting start of Business support manager to lead a procurement review council wide.
Rich Kerr	I-4.5	Open purchase order review We recommend the procurement procedures manual is updated to make reference to expectations for acceptable length of time purchase orders are open.	Status: New The key procurement documents being policy and manual are in the midst of a review and update. The manual will be updated to set expectations for the acceptable length of time purchase orders are open.	Low	As part of the overall procurement review. We are sending regular alerts to staff listing old open PO's older than 6 months.	Once restructure finalised. By 31 December 2017	Awaiting start of Business support manager to lead a procurement review council wide.
Dom Kula	E-3.6	Fully depreciated assets We recommend that the Council reviews the useful lives within the fixed asset register and the accounting policies to ensure that the useful lives reflect the actual life of these assets.	Status: New Council noted the finding and will review useful lives as part of the YE2017 revaluation.	Beneficial	Council has noted the finding and is reviewing useful lives for assets in Hansen as part of the YE2017 revaluation.	30-Jun-17	Completed
Jason Marris	E-3.8	The Council's governance role over Council Controlled Organisations (CCOs) We recommend that the Council works with its CCOs to ensure they meets their obligations under the Local Government Act 2002 (LGA).	Status: New Council agrees that it should focus on the compliance with the Local Government Act (LGA) for the receipt, review and completion of the Statements of Intent for each CCO and receipt of financial reports. The Governance Manager is now responsible for monitoring these processes to ensure that the Statements of Intent and financial reports do comply with legislative timeframes.	Beneficial	The Governance Manager oversees the CCO reporting programme and ensures that each CCO reports as required. For the non-exempt CCOs a relationship manager from within our technical staff have been allocated the liaison point between the CCO/Board and Council. All reporting by CCOs is now being done according to legislative requirements.	All actions completed	All actions implemented
Simon Weston	E-4.1	Shared services We recommend the Council ensures there are clear accountability and governance frameworks in place for the Transportation Hub and Shared Services Business Unit.	Status: New Council agrees that there should be clear accountability and governance frameworks in place over the shared service arrangement. Hence, the Northland Transportation Alliance (NTA) has regular (monthly at this stage) meetings of the 'Alliance Leadership Group' providing CE level leadership. Day to day operations are through the General Manager Infrastructure. Foundation Documents to enhance the governance for the NTA are the: - Northland Transportation Collaboration Opportunities Business Case; - Northland Transportation Alliance Memorandum of Understanding between the five organisations; - Agreement for In-House Professional Services between the Whangarei District Council and the Shared Services Business Unit of the Northland Transportation Alliance; and - the Northland Transport Alliance Business Plan 2016/2017. These document describe the services to be provided and the accountability for providing those services. As the NTA matures these documents will be developed further to cover the services that it provides.	Beneficial	Implemented.	Completed.	Completed.
Murray McDonald	E-3.4	Vested assets We recommend that the Council: - develops systems and processes to ensure vested assets are capitalised when completed; and - continues to seek timely receipt of as-built plans from developers, prior to issuing section 224 certificates.	Status: New	Necessary	Council accepts in part the comments raised in relation to the previous periods of assets vested and taken appropriate action to amend business processes to ensure timely recognition of vested assets into Hanson. Council's business processes already ensure as-built plans are received from developers before issuing section 224 certificates.	Completed	Completed
Rich Kerr	E-2.1	Capitalisation of work-in-progress (WIP) Capitalisation policies were approved in July 2016 and should result in improved accounting and reporting of capital projects. In the absence of those policies during the 2016 audit we have continued to recommend that: - the process for capitalising assets is monitored to ensure it is effective in managing the timely and accurate capitalisation of WIP; - the review of WIP incorporates an impairment assessment of balances not yet capitalised at year end; and - as-built plans and other required documentation are required before accepting assets from developers.	Status: New Council accepted the finding, will consider the recommendation and take appropriate action.	Necessary	With the implementation of the capitalisation policy and the clean up of WIP staff are able to actively monitor and review WIP with timely capitalisation. At year end WIP will be reviewed for impairment. Processes are in place to ensure acceptable as-built plans and other required documentation required before accepting assets from developers are received before issue of the 224C.	Implemented	Complete
Rich Kerr	I-4.6	Invoice review Continued reinforcement to accounts payable staff and purchasing staff regarding expectations for invoice review, and ensure these expectations are clearly identified in procurement policies and procedures.	Status: New The need for payables staff to check that invoices meet minimum requirements will be regularly highlighted to them. We do not believe that this occurs very often and in a high volume transactional environment it is understandable that the odd non complying invoice will be processed. If an invoice is received that matches the purchase order or is within 5% or \$50, and the goods or services have been receipted then it will be processed. If the goods or services have not been receipted, then the invoice will be workflowed to the business. It is the businesses responsibility to review the invoice for accuracy before receipting.	Low	The need for payables staff to check that invoices meet minimum requirements has been highlighted to payables staff although as stated in a high volume transactional environment it is understandable that the odd non complying invoice will be processed and it is the businesses responsibility to review the invoice for accuracy before receipting.	Complete	Complete
Status of previously reported recommendations							
Jenny Antunovich	App 3	Controls over employee masterfile changes We recommend that the Council implements an effective review process for employee masterfile changes. This could be achieved by implementing a one-up approval step in the system. Alternatively, a masterfile change report can be obtained from IT and independently reviewed on a regular basis, for example, after each pay run.	Status: Progressing The Human Resources team currently operate a paper based one up approval for payroll changes and are working with TechOne to build a simple masterfile change report to automate this process. Council agree to the recommendation; the Human Resources team currently operate a paper based one up approval for payroll changes and are working with Technology one to build a simple masterfile change report to automate this process.	Necessary	We are currently reviewing the masterfile change process that TechnologyOne are proposing.		TechnologyOne are developing a new Masterfile process. We are waiting for delivering so we can test it

Audit Issues Action plan progress - audit issues identified during recent and prior audits - last updated 1 September 2017 by business owners

Business Owner	Audit Ref	Audit Recommendation	Current status and previous comments	Priority	Management's action plans	Implementation Timeframe	Progress @ 31 August 2017
Andrew Carvell	App 3	Accounting for the Bream Bay Land Owners Association (BBLOA) arrangement We recommend that the Council reviews the accounting treatment for balances and transactions resulting from this agreement to ensure that it is correctly reflected in the Council's financial statements, and that an appropriate accounting policy is adopted for the future. In addition, we ask that the Council keeps us informed of any significant developments under this agreement, and any similar arrangements entered into in the future.	Status: Progressing Feedback on the accounting implications of this agreement was provided through the last annual report process. A review of the agreement is currently underway to potentially update it to reflect growth and HUE changes. The Council's BBLOA project manager has been advised to factor an accounting review into the review of the document before it is finalised and the decision was made not to undertake an accounting review through the annual report process.	Beneficial	BBLOA agreement currently being reviewed with aim of preparing a draft by end of March 2017.	In place	Draft agreement is still being drafted in consultation with BBLOA members.
Rich Kerr	App 3	Procurement and contract management We have made a number of recommendations on procurement and contract management. Please see our prior year management report for details.	Status: Progressing As part of our assessment of the Council's management control environment we reviewed the Council's Procurement policy and manual, and Risk Management framework. A contract management plan is already contained in the matrix in the policy, however the need to pursue less costly means is covered by the use of a variation to policy which must be signed off by a Leadership Team member which protects staff from taking an unauthorised route to procure. We will follow up again on the progress next year.	Beneficial	Council review in progress.	Once restructure finalised. By 31 December 2017	Awaiting start of Business support manager to lead a procurement review council wide.
Mike Hibbert	App 3	Impairment of earthquake prone buildings The Council should consider the risk of impairment on relevant assets for seismic strengthening.	Status: Progressing The Council is currently assessing the impairment of earthquake prone buildings. Some earthquake prone buildings have been identified. In other areas such as waste and drainage, parks and libraries assessments are at various stages. An update in relation to the Council's biggest two earthquake prone assets is provided below: Forum North building Options for the Council premises at Forum North are being progressed with Council receiving regular updates on options. Central City Car park The body corporate is to determine a maintenance programme which may/may not affect seismic solutions identified in the engineers report. These will be incorporated into budgets as determined through planned maintenance/capital plans. Timeframes should be established by December 2016, in anticipation for the 2016/17 financial year.	Beneficial	Forum North: estimates to meet compliance have been determined. Progress is being made re the future One Building Council project and pending that decision will address the earthquake issues associated with Forum North. Central City Car Park: The body corp is progressing a maintenance plan. Council has budget to contribute to the appropriate solution and will progress the work in the next financial year.	Pending One Building Council project outcomes.	One Building options being considered through Council. Timing and budgets to be established pending decision. Central City carpark budget allocated for 17/18 year. Price estimate of \$70k established.
Kathryn Candy	App 3	Monitoring and reporting of legal matters We recommend that a formal system is implemented to centrally monitor and report all outstanding legal matters. This will help monitor and mitigate the Council's exposure to legal risks. We also recommend that reporting of significant legal matters is included in Council meeting agendas.	Status: Outstanding No change from prior year. Council agrees with the recommendation, however needs to address resourcing the legal area to enable it to implement such a monitoring and reporting programme. Council is currently performing a Section 17a review to assess resources. The Chief Executive provides monthly updates to Council of significant legal matters.	Beneficial	Section 17A review due to be completed by end of March 2017 which will address resourcing.	tbd	Additional legal resource now employed and due to start early September. Further work on this action point will start in October 2017.
Jeff Devine	App 3	Valuer's recommendations We recommend that the Council implements the recommendations identified by the Roding valuers in 2014.	Status: Outstanding This year Opus performed a valuation of the Council's roading asset class. A number of recommendations were made by the valuer, refer to Opus' valuation report Section 5 Improvement Recommendations for details.	Beneficial	14 action plans at various stages of completion by end of March 2017.	Mar-18	9 of the 14 items have been completed. The remaining 5 items are being progressed with a revised completion date of March 2018
Paul Cook	App 3	Building consent fees received in advance We recommend that old building consents are reviewed and refunded if appropriate.	Status: Progressing The Council is reviewing the treatment of this account. The Council's view is that many of the prepaid fees are still in progress, so do not need refunding. The others are in a refund situation because the applicant have not applied for a code of compliance certificate (CCC). Giving a refund would be in contravention of the Building Act there is no time limit on obtaining a CCC. Council will consider the recommendation and take appropriate actions, however the Building Act does not identify a time limit for owners to complete or apply for a code compliance certificate.	Beneficial	Council has continued to deal with these on an application received basis. The Building Act remains unchanged in this area in reference to the owners needing to apply for a code compliance certificate	Ongoing case-by-case basis.	Ongoing case-by-case basis when owners apply for Code Compliance Certificates, in addition to this WDC runs a two year review process to follow up on these accounts and deals with the fee and compliance aspects at this stage. This happens on a monthly basis for consent issued under the current Building Act 2004.
Alan Adcock	App 3	Stonehaven community loans We suggest that the Council formally reviews the loans for impairment on a regular basis, based on the financial circumstances of the borrower.	Status: Outstanding The Council received two \$100K repayments during the 2015/16 financial year. The Trust is currently preparing a proposal for the Council's consideration. This will include a capital repayment program. Accepted, Council is working with the Trust on an appropriate way forward.	Beneficial	Liaising with the Stonehaven Trust, who are developing a long term strategic plan. In the meantime they are aware of the need to make regular repayments of principal.		Proposal for partial repayment and matching write-off by WDC being prepared for Council consideration. \$100k repaid in meantime. \$500k loan impairment being made for 16/17 AR
Delyse Henwood	App 3	Consistent accounting policies for the group With the roll-out of PBE accounting standards in 2015, group accounting policies will need to be reviewed to ensure consistent accounting policies across the group, particularly in light of the fact that the Council has a profit-oriented joint venture which will apply a different suite of accounting standards to the Council and other entities in the group.	Status: Progressing The Council has reviewed and updated the accounting policies. The Council is accounting for the Airport JV and NRLLP differently. The accounting treatment should be aligned to the group accounting policy.	Beneficial	Whangarei District Airport and NRLLP are now accounted for using the equity method. Further investigation will be in with regards to the items on the misstatement schedule concerning consolidation. Our intention is to provide a file note with our findings including any necessary adjustments by interim audit	Interim audit	Under PBE IPSAS1 Presentation of Financial Statements, Council has reviewed how its financial statements and accounting policies are presented in preparing the 30 June 2017 financial statements. Council will continue to review and improve the information presented in its financial statements going forward. Council will also consider the accounting policies disclosed by the profit-oriented joint venture and assess whether any additional policies need to be disclosed in Councils Annual Report.

Audit Issues Action plan progress - audit issues identified during recent and prior audits - last updated 1 September 2017 by business owners

Business Owner	Audit Ref	Audit Recommendation	Current status and previous comments	Priority	Management's action plans	Implementation Timeframe	Progress @ 31 August 2017
Jenny Antunovich	App 3	Review of employee Code of Conduct We recommend that the employee Code of Conduct is reviewed and updated.	Status: Progressing The review of the Code of Conduct is underway. Consultation with staff is about to commence. Council agree to the recommendation; the staff code of conduct review is progressing but delayed. The elected member code of conduct is also being reviewed at the start of the term and it is important that both the staff code and the elected member code are aligned.	Beneficial	The elected members have not approved an updated version of their code of conduct, so the current one remains in place		Now that the elected members code of conduct is remaining as it is we will revisit our initial plan to align with the Councillors code of conduct and consider the most appropriate course of action.
Kathryn Candy	App 3	Related party disclosures We recommend that management adopts robust procedures to ensure all transactions with related parties that are not at arms-length are disclosed in the accounts to ensure compliance with the accounting standards.	Status: Complete We recommend that a more thorough and substantive assessment is completed in relation to related party transactions to confirm that transactions are or are not at arm's length and to ensure that any potential related party transactions are disclosed in the annual report (if required) and any conflict of interest risks are mitigated. We have received a very high level assessment on related party transactions from the Council. Council accepted and considered recommendation; action completed with a process in place.	Necessary	Council accepted and considered recommendation; action completed with a process in place.	Completed	Completed
Delyse Henwood	App 3	Journals: Authorisation Journals are not independently approved to verify whether the journal was appropriate. Good practice suggests that journals are individually reviewed and signed as evidence of this review.	Status: Complete No change from prior year. The Council has advised us they are reviewing their journal processes, including documentation and approval. The Council's intention is to review journals over a certain threshold and that meet certain criteria. Council accepts the finding, considered the recommendation and taken appropriate action; Council is reviewing its journal process including documentation and approval. Council's intention is to review journals over a yet to be determined threshold amount. It is envisaged that standard monthly/frequent reconciliations will not be reviewed. It will ensure that all significant journals as part of the year end process are reviewed.	Necessary	Council does not have the resource to review all journals processed. Council considers that the greatest risk area concerns PPE. All PPE journals are now reviewed by the PPE Accountant prior to posting in the GL. Council also considers that regular reviews of Balance Sheet reconciliation, and analysis of month end opex reporting assist in identifying possible errors.	Already in place	Complete. Council does not have the resource to review all journals processed. Council considers that the greatest risk area concerns PPE. All PPE journals are now reviewed by the PPE Accountant prior to posting in the GL. Council also considers that regular reviews of Balance Sheet reconciliation, and analysis of month end opex reporting assist in identifying possible errors.
Rich Kerr	App 3	Historic accounting issues In previous years we identified issues in regards to the capitalisation of property, plant and equipment (PPE). During 2014/15 the Council reviewed its PPE and identified a number of issues which were corrected in the 2014/15 financial statements. The Council needs to continue to improve the policies and processes around recording PPE in the general ledger and asset register.	Status: Complete See section 2.1 above. The Council has updated its accounting policies and has reviewed the process around recording PPE in the general ledger and asset register. Progress has been made by the council during the 2015/16 year on resolving historic PPE issues through the PPE continuous improvement project. There were additional prior year errors identified by the Council for 2015/16.	Urgent	• Completed. Council will continue to make improvements to its recording and accounting for PPE.	Complete	Complete
Dom Kula	App 3	Review of work in progress balances We recommend that a regular review of WIP is carried out, to ensure that: - completed assets are identified and capitalised; - additions to WIP meet the definition of capital items, rather than operational expenditure; and - impaired WIP is expensed.	Status: Completed See section 2.1 above. The Council continues to make progress in 2015/16. The Council cleared the Hansen Clearing account at year end. A number of items sitting in WIP at year-end were operational expenditure in nature and were expensed.	Urgent	Financial Services and Asset Data have instigated monthly WIP meetings with department managers to review work in progress balances.	Completed	Completed
Murray McDonald	App 3	Recognition of vested assets We recommend that when a subdivision is completed and certified, the Development Contribution team should formally advise the Finance Team that a vested asset is due to be recognised. We also recommend that the Council continues to seek timely receipt of as-built plans from developers as part of the section 224 process, to further enable timely recognition of vested assets.	Status: Complete See section 3.4 above. The Council is reviewing the process of recognising vested assets. The review has started recently and some controls are in place but not fully implemented.	Necessary	Council accepts in part the comments raised in relation to the previous periods of assets vested and taken appropriate action to amend business processes to ensure timely recognition of vested assets into Hanson. Council's business processes already ensure as-built plans are received from developers before issuing section 224 certificates.	Completed	Completed
Rich Kerr	App 3	Capitalisation of work in progress We recommend that completed assets are capitalised in a timely manner. The Council should review the capitalisation process to ensure that all assets are capitalised in the correct accounting period, particularly so that they can be accurately depreciated and revalued.	Status: Complete See section 2.1 above. The Hansen Clearing account was cleared at year end. The majority of completed infrastructure projects were capitalised at year end. However, there were still a number of infrastructure projects completed in the last quarter of the financial year that did not get processed into Hansen by the time the annual report was finalised.	Necessary	• There will always be timing differences because the majority of infrastructure projects are completed in the last quarter of any given year it reasonable to expect that there will be completed projects that do not get processed into Hansen by the time that the annual report financials are finalised and those projects will still be sitting in WIP.	We are capitalising projects in a timely manner.	Complete
Dom Kula	App 3	Valuation of infrastructure assets The following recommendations were made in previous management reports: - processes are developed to ensure that all assets within a class are revalued; and - valuation reports are reviewed for reasonableness. Refer to prior management reports for detailed recommendations.	Status: Complete The Council intends to review and document its revaluation process. As part of this exercise the Council will consider the frequency with which valuations are completed.	Necessary	The revaluation process was reviewed by both Asset Data and Financial Services prior to commencing the YE2017 revaluation of assets in Hansen. As part of this process a draft valuation report will be provided and reviewed for reasonableness.	30-Jun-17	Completed
Nathan Wright	App 3	Audit of Debenture Trust Deed register The Council should review its obligations under the Debenture Trust Deed to ensure it is fulfilling its obligations. For example, the Council's Trust Deed requires an audit of the register.	Status: Complete The Council believes that PwC has performed an audit of the register. We have sought clarification from the Council to confirm if the Council's register was included in this audit as the audit seems to only cover entities that issue debt to the public which the Council does not. Council accepted and actioned recommendation; Council has provided a copy of the PwC audit report to Audit along with a response regarding Council's register being included in the audit of the register.	Necessary	Council provided Audit New Zealand with a copy of PwC's audit report during the 2015/16 financial year. Audit appear to be satisfied with this approach and are due to issue their assurance report in the coming week.	Completed	Completed. Assurance report received from audit in March 2017.

Audit Issues Action plan progress - audit issues identified during recent and prior audits - last updated 1 September 2017 by business owners

Business Owner	Audit Ref	Audit Recommendation	Current status and previous comments73	Priority	Management's action plans	Implementation Timeframe	Progress @ 31 August 2017
Emily Thompson	App 3	Assessment of areas susceptible to fraud We recommend that the Council implements a formalised process to identify and address areas susceptible to fraud.	Status: Complete No review was performed during the year of areas susceptible to fraud. The Council advised that this is under discussion with the Audit and Risk Committee. A new role has been established to coordinate actions to resolved issues/risks identified. This will form part of the annual audit work programme that was drafted and tabled at the June 2017 Audit and Risk Committee meeting for their consideration. The audit work programme is based on the prioritised key risks, and their related controls, linking to the Council's business processes (commonly referred to as the audit population) and to the council/business value drivers. The identification and documentation of the key risks and controls is performed by the Audit and Risk Analyst through workshops held throughout the council with 20 department managers and their team leaders. It is planned that this information gathering process will be completed by May 2017.	Necessary	Council accepts the finding, considered the recommendation and has taken appropriate action; the review of Council areas susceptible to fraud is considered in the internal annual audit strategy and three-year rolling work programme which was approved at the March 2017 Audit and Risk Committee meeting. A probity audit of sensitive expenditure, was completed and reported to the June 2017 Audit and Risk Committee.	Ongoing	Completed. An internal audit review programme has been approved and is now ongoing

RESOLUTION TO EXCLUDE THE PUBLIC

That the public be excluded from the following parts of proceedings of this meeting.

The general subject of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter, and the specific grounds under Section 48(1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution are as follows:

1.	The making available of information would be likely to unreasonably prejudice the commercial position of persons who are the subject of the
2.	To enable the council (the committee) to carry on without prejudice or disadvantage commercial negotiations. {(Section 7(2)(i))}.
3.	To protect the privacy of natural persons. {Section 7(2)(a)}.
4.	Publicity prior to successful prosecution of the individuals named would be contrary to the laws of natural justice and may constitute contempt of court.
5.	To protect information which is the subject to an obligation of confidence, the publication of such information would be likely to prejudice the supply of information from the same source and it is in the public interest that such information should continue to be supplied.
6.	In order to maintain legal professional privilege. {Section 2(g)}.
7.	To enable the council to carry on without prejudice or disadvantage, negotiations {Section 7(2)(i)}.

Resolution to allow members of the public to remain

If the council/committee wishes members of the public to remain during discussion of confidential items the following additional recommendation will need to be passed:

Move/Second

permitted to remain at this meeting, after the public has been excluded, because of his/her/their knowledge of _____

This knowledge, which will be of assistance in relation to the matter to be discussed, is relevant to that matter because _____

Note:

Every resolution to exclude the public shall be put at a time when the meeting is open to the public.